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United Nations Industrial Development Organization

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GENERAL CONFERENCE

Tenth session
Vienna, 1-5 December 2003

Industrial Development Board

Twenty-seventh session
Vienna, 26-28 August 2003
Item 6 (b) of the provisional agenda

FIELD REPRESENTATION

Programmatic reform and decentralization

Report by the Director-General

Reports on recent developments in field operations and field representation, thereby updating information in the *Annual Report 2002* and documentation submitted to the twenty-fourth session of the Board.

Introduction

1. The Industrial Development Board adopted at its twenty-sixth session the strategic guidelines "Towards improved UNIDO programme delivery" (IDB.26/Dec.7) providing additional clear guidelines to the Secretariat to various ongoing efforts based on earlier decisions of the policy-making organs. The present report deals with two key areas dealt under the "Critical issues in the provision of technical cooperation services" of the strategic guidelines: improving field operations, with particular emphasis on integrated programmes (IPs) and country service frameworks (CSFs); and field representation, including decentralization.

2. The Business Plan on the Future Role and Functions of UNIDO states, inter alia, that "an effective decentralization of activities and strengthened field representation has to be secured". At its twenty-fourth session, the Industrial Development Board had before it a progress report by the Director-General on field representation (IDB.24/15) and a conference room paper on the current situation and future plans (IDB.24/CRP.5). The report indicated that, based on consultations with Member States, organizational efforts in 2002-2003 would be directed towards stabilizing the existing field structure. The Board took note of the documentation submitted by the Secretariat.

3. Accordingly, the Secretariat concentrated its efforts in optimizing the existing field structure and focused on how to enhance the decentralization process accompanied by delegation of authority to the field within the given budgetary limitations with a view to improving field operations with particular attention to IPs and CSFs. Various measures described in the following paragraphs were aimed not only at strengthening the field office network but also at achieving greater impact in recipient countries, which in turn requires UNIDO to be responsive to rapidly changing conditions, demand-oriented, and close to the client, and at the same time to ensure a timely service delivery and better integration in the United Nations system with its Millennium Development Goals at the field level.

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I. STRENGTHENING DECENTRALIZATION

A. Organizational support of the programmatic reform

4. In 2002 the organizational structure (UNIDO/DGB/(O).86/Add.9) was adjusted to support the programmatic reform through consolidation into two major programmatic divisions: the Programme Development and Technical Cooperation Division (PTC) and Programme Coordination and Field Operations Division (PCF). The creation of PTC brought together all the substantive areas, strengthening the technical backbone of the Organization. In creating PCF the key aim was to concentrate the management of all field operations, to manage the decentralization process and to improve coordination with respect to the three central functions: field coordination and management, funds mobilization and the global forum function.

5. The issues related to decentralization to the field were extensively discussed at the meeting of UNIDO Representatives (URs) organized at Dar-es-Salaam in February 2003 and at the retreat of the Board of Directors that followed. As a result of this retreat, three working groups ("commissions") were established. Commission III was mandated to work out the decentralization strategy with a particular emphasis on the redeployment of authority and responsibility to the field.

6. At the same time, steps were taken to develop or improve processes and modalities that would better support the programmatic reform. They are guided by the principle established in the Director-General's Bulletin on "Enhancing Organizational Capacity" (UNIDO/DGB(M).91): Staff of various Headquarters units and field staff would function as a team, complementing each other's experience to achieve maximum impact, and should be able to appear and provide services as one UNIDO in the field.

B. Integrated programmes and country service frameworks—Review and adjustment

7. Based upon a review and classification of IPs and CSFs carried out in October 2002, the Executive Board decided that UNIDO should pursue a systematic process for adjustment and modifications of IPs and CSFs under the leadership of PCF, taking into consideration their funding and implementation experience. This adjustment process is being carried out in close consultation with the authorities in the countries concerned. It also took into account the results of the in-depth evaluation carried out in late 2002 and early 2003 (Guatemala, Mozambique, Sri Lanka and the United Republic of Tanzania). This process is now reaching the final stage.

8. Following the deliberations of the recent nineteenth session of the Programme and Budget Committee, the Director-General entrusted the Managing Director of PCF to go further in the assessment exercise and to develop suitable performance indicators. For this purpose a small group was established under the chairmanship of the Director, Strategic Research and Economy Branch. In developing an indicator framework, the group drew on two ongoing UNIDO works: a rapid country assessment methodology based on the scoreboard approach included in the Industrial Development Report, and the evaluation framework. Before possible replication in other IPs and introducing this combined approach as standard methodology for UNIDO, it is being tested in Tanzania. At the same time, other impact measurements would be carried out based on the adjusted IPs and CSFs.

II. DECENTRALIZATION

A. Enhanced decentralization process—Regional bureaux as one-stop shops

9. To enhance the decentralization process Director-General's Bulletin UNIDO/DGB(M).91 of 14 November 2002 strengthened the role of the regional bureaux, which—together with the field office network—constitute the "regional programmes" in their respective regions. This "regional programme" approach not only allowed a smooth advancement of the decentralization process but also enabled UNIDO to flexibly adapt itself to the particular conditions and circumstances of each region in increasingly shifting the emphasis towards the field.

10. In March 2003, all the project allotment documents (PADs) (except for Montreal Protocol projects) in Latin America and the Caribbean as well as Europe and NIS were transferred to the directors of the respective regional bureaux to improve coordination and management of technical cooperation activities. This measure broadened the extent of decentralization by some 18 per cent of total technical cooperation delivery in 2002. With the 5 per cent covered by the six URs as team leaders of IPs/CSFs, the decentralization process so far has expanded to some 23 per cent of the total 2002 implementation value.

11. Based on the experience gained from these pilot cases in Latin America and the Caribbean as well as Europe and NIS, the decentralization process will be expanded to other regions, taking into account the characteristics of each. At the same time, the team leadership of IPs/CSFs will gradually be shifted to the "regional programmes" (i.e. to the regional bureaux and to the URs). These processes are expected to be completed before the end of 2003. One emerging feature of these new arrangements is that the regional bureaux can now function as "one-stop shops" with regard to countries of their coverage.

B. Delegation of programmatic authority to the field

12. To provide more programmatic authority to the URs, the Executive Board appoints them as team leaders of IP/CSF formulation teams and increasingly also as team leaders for the implementation of new IPs/CSFs. As reported to the Board at its twenty-fifth session, PADs for all IPs/CSFs were transferred in May 2002 to the respective team leaders, who thereby became allotment holders, thus receiving full authority and responsibility for implementation. This measure was introduced to support the team leaders in maintaining the coherency and integration of the programmes during their implementation phase. At present, there are six URs appointed as team leaders under this arrangement. Measured in terms of 2002 technical cooperation delivery, these six cover some 22 per cent of total IPs/CSFs and 5 per cent of total technical cooperation. The number of appointments of URs as team leaders will be increased gradually and on a selective basis to take into account the capacity of the individual offices so that some 50 per cent of URs currently in the field would be entrusted with this function by the end of 2003.

C. Field office structure and staffing

13. While advancing and further refining the above decentralization process, Commission III is developing a proposal to streamline the field office network structure based on a model that would be realistic and feasible, taking into account the following competing factors:

(a) The demand for a UNIDO field presence is greater than the existing office network, from a programmatic perspective;

(b) The need for a UNIDO country presence is growing due to the increasing importance of active participation in the United Nations Development System (UNDS) and in the work of its Country Team (UNCT);

(c) The new field network structure should not lead to an increase of the budget for the biennium 2004-2005;

(d) The new structure should provide a sound basis and infrastructure that would allow decentralization to a maximum degree within this budgetary limitation.

14. In 2003, two field offices will be added: Morocco in view of a very active IP of a significant size; and South Africa in light of the newly-approved CSF and the important role it could play in the subregion. A possibility is being examined to cover Latin America and the Caribbean by three regional offices by converting Mexico from a country to a regional office. This would result in an field office network that would consist of 19 country and 10 regional offices by the end of 2003, compared to 20 and 9 respectively, in November last year. Further adjustments of this network in the coming years are inevitable in order to respond to the changing conditions and programmatic developments.

15. The proposed programme and budgets, 2004-2005, include these two new field offices, and reduction of five Professional posts from the regional offices. Given the budgetary constraints expected in the coming years, consolidation of field offices will become necessary. At the same time, efforts will be made to minimize vacancies, to further decentralize Professional posts from Headquarters to the field and to establish an improved rotation policy and system in an attempt not to further aggravate the demand-supply gap in field representation. The adjustment of the field office structure will be carried out carefully with a focus on the core elements required for according the URs the leading role in field operations and the ability to be an active partner of the United Nations development process, e.g. through their participation in the United Nations Country Teams. The qualifications of a UR should include UNIDO work experience in the light of the added responsibility to manage technical cooperation activities in the field. Therefore, in selecting candidates for UR positions, priority will be given to internal applicants.

D. Instruments to support field office operations

16. While clear progress has been made in moving the decentralization process to the field, further support and reinforcement are needed, for example through building up field office capacity, increased networking with Investment and Technology Promotion Offices (ITPOs) and National Cleaner Production Centres (NCPCs), and better access to Headquarters information. A systematic approach in networking field offices, ITPOs and NCPCs was launched in late 2002, initially by linking field offices and ITPOs on the one hand, and ITPOs and NCPCs on the other.

17. Pending availability of direct access to the financial control system, required information and data from the financial performance control system (Agresso) will be provided to the field offices through the UNIDO Intranet. Furthermore, a Web page for URs is being launched and will facilitate communication and information exchange between URs and Headquarters and also among URs. At the same time, a field manual to facilitate their work is ready for issuance as soon as the procedural details of the above decentralization process are finalized.

III. ACTION REQUIRED OF THE BOARD

18. The Board may wish to take note of the present document.

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Item 18 of the provisional agenda

APPLICATION FOR OBSERVER STATUS

Note by the Secretariat

1. Pursuant to Articles 4.1 and 4.3 of the Constitution, an application for observer status has been received from the Sovereign Military Order of Malta.

2. The Sovereign Military Order of Malta enjoys observer status in the General Assembly of the United Nations.

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Item 17 of the provisional agenda

MATTERS RELATED TO INTERGOVERNMENTAL, NON-GOVERNMENTAL, GOVERNMENTAL AND OTHER ORGANIZATIONS

Note by the Director-General

Provides information on events related to agreements with intergovernmental organizations and to consultative status of non-governmental organizations associated with the work of UNIDO since the ninth session of the General Conference.

Introduction

1. In accordance with Article 19 of the Constitution, the General Conference, at its first session, issued guidelines according to which the Director-General, with the approval of the Industrial Development Board, may enter into agreements or establish appropriate relations with certain organizations (decision GC.1/Dec.41, annex). Paragraphs 4, 11 and 19 of the guidelines stipulate that the Director-General shall report to the Conference at each regular session on any agreements with intergovernmental or governmental organizations or other organizations of the United Nations system entered into by him on behalf of the Organization and on any consultative relations established since the preceding regular session. The present document complies with those stipulations, and provides information on related events that have taken place since the ninth session of the General Conference.

I. INTERGOVERNMENTAL ORGANIZATIONS

2. Since the issuance of document GC.9/7, no new requests for relationship agreements with intergovernmental organizations (IGOs) have been considered by the Board. The Conference is informed that the African Posts and Telecommunications Union (APTU), with which a relationship agreement was authorized in 1988, but with which no relationship agreement was concluded, has ceased to exist. Thus, APTU has been deleted from the list of 50 IGOs with which the Director-General has been authorized to negotiate relationship agreements, as provided in annex I to the present document.

II. NON-GOVERNMENTAL ORGANIZATIONS

3. At its twenty-fifth and twenty-seventh sessions the Board, in decisions IDB.25/Dec.10 and IDB.27/Dec.11 respectively, decided to grant consultative status to two non-governmental organizations (NGOs).

4. The Conference is informed that the following NGO which was granted consultative status with UNIDO in 1999 has ceased to exist:

- Unterstützungsverein für Gewerbliche Betriebsgründungen in Albanien

5. Thus, a total of 136 NGOs are currently in consultative status with UNIDO, as shown in annex II to the present document.

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Annex I

INTERGOVERNMENTAL ORGANIZATIONS WIH WHICH RELATIONSHIP AGREEMENTS HAVE BEEN AUTHORIZED
(as of 1 October 2003: 50 organizations)

Name of organization	Abbreviation/ acronym	Authority/ decision	Background information document
*African Development Bank	AFDB	IDB.2/Dec.28	IDB.2/31
*African Intellectual Property Organization	OAPI	IDB.6/Dec.19	IDB.6/15
*African Regional Centre for Technology	ARCT	IDB.2/Dec.28	IDB.2/31
*African Regional Organization for Standardization	ARSO	IDB.2/Dec.28	IDB.2/31
*Agency for Cultural and Technical Cooperation	ACCT	IDB.2/Dec.28	IDB.2/31
Andean Parliament		IDB.2/Dec.28	IDB.2/31
*Arab Industrial Development and Mining Organization	AIDMO	IDB.2/Dec.28	IDB.2/31
*Arab League Educational, Cultural and Scientific Organization	ALECSO	IDB.2/Dec.28	IDB.2/31
*Arab Maghreb Union	AMU	IDB.17/Dec.7	IDB.17/21
*Arab Union for Cement and Building Materials	AUCBM	IDB.3/Dec.43	IDB.3/24
*Asian-African Legal Consultative Organization	AALCO	IDB.10/Dec.20	IDB.10/16/Add.1
*Asian and Pacific Coconut Community	APCC	IDB.2/Dec.28	IDB.2/31
*Black Sea Economic Cooperation	BSEC	IDB.15/10	IDB.15/8/Add.1
Caribbean Community	CARICOM	IDB.5/Dec.40	IDB.5/22
*Caribbean Development Bank	CDB	IDB.2/Dec.28	IDB.2/31
*Cartagena Agreement	JUNAC	IDB.2/Dec.28	IDB.2/31
*Central African Customs and Economic Union	CPCEU/UDEAC	IDB.2/Dec.28	IDB.2/31
*Central African States' Development Bank	CASDB/BDEAC	IDB.2/Dec.28	IDB.2/31
*Common Market for Eastern and Southern Africa	COMESA	IDB.4/Dec.44	IDB.4/6
*Cooperation Council for the Arab States of the Gulf	GCC	IDB.10/Dec.20	IDB.10/16
Council for Arab Economic Unity	CAEU	IDB.2/Dec.28	IDB.2/31
Development Bank of the Great Lakes States	BDEGL	IDB.10/Dec.20	IDB.10/16
European Bank for Reconstruction and Development	EBRD	IDB.21/Dec.14	IDB.21/25
*Economic Cooperation Organization	ECO	IDB.11/Dec.35	IDB.11/18
*European Community	EC	IDB.6/Dec.19	IDB.6/15
*Financial Fund for the Plata Basin Development	FONPLATA	IDB.8/Dec.39	IDB.8/44
*Fund for Solidarity and Economic Development of the West African Economic Community	FOSIDEC	IDB.6/Dec.19	IDB.6/15/Add.1
*Group of Latin American and Caribbean Sugar Exporting Countries	GEPLACEA	IDB.2/Dec.28	IDB.2/31
*Gulf Organization for Industrial Consulting	GOIC	IDB.2/Dec.28	IDB.2/31
*Intergovernmental Organization for Marketing Information and Cooperation Services for Fishery Products in Africa	INFOPECHE	IDB.15/Dec.10	IDB.15/8
*International Centre for Genetic Engineering and Biotechnology	ICGEB	IDB.15/Dec.10	IDB.15/8
*International Centre for Public Enterprises	ICPE	IDB.2/Dec.28	IDB.2/31
*International Center for Scientific and Technical Information	ICSTI	IDB.5/Dec.40	IDB.5/22
*International Institute of Refrigeration	IIR	IDB.15/Dec.10	IDB.15/8
International Jute Organization	IJO	IDB.4/Dec.44	IDB.4/6
*International Lead and Zinc Study Group	ILZSG	IDB.5/Dec.40	IDB.5/22
*International Organization for Migration	IOM	IDB.2/Dec.28	IDB.2/31
*International Pepper Community	IPC	IDB.8/Dec.39	IDB.8/44
International Tropic Timber Organization	ITTO	IDB.5/Dec.40	IDB.5/22
Islamic Centre for Development of Trade	ICDT	IDB.2/Dec.28	IDB.2/31
Islamic Development Bank	ISDB	IDB.2/Dec.28	IDB.2/31
*Islamic Educational, Scientific and Cultural Organization	ISESCO	IDB.11/Dec.35	IDB.11/18
Islamic Foundation for Science, Technology and Development	IFSTAD	IDB.8/Dec.39	IDB.8/44
*Latin American Integration Association	LAIA/ALADI	IDB.11/Dec.35	IDB.11/18
*League of Arab States	LAS	IDB.9/Dec.18	IDB.9/19
Senegal River Development Organization	OMVS	IDB.2/Dec.28	IDB.2/31
*African Union	AU	IDB.2/Dec.28	IDB.2/31
*Organization of the Islamic Conference	OIC	IDB.2/Dec.28	IDB.2/31
*South Asia Cooperative Environment Programme	SACEP	IDB.2/Dec.28	IDB.2/31
*West African Development Bank	WADB	IDB.2/Dec.28	IDB.2/31

* Agreement concluded.

Annex II

INTERNATIONAL NON-GOVERNMENTAL ORGANIZATIONS HAVING CONSULTATIVE STATUS WITH UNIDO

(as of 1 October 2003: 136 organizations)

Name of organization	Abbreviation/ acronym	Authority/ decision	Background information document
African Technical Association	ATA	IDB.2/Dec.29	IDB.2/5
African Technology Development Link Inc.	Techlink	IDB.19/Dec.6	IDB.19/4
Afro-Asian Peoples' Solidarity Organization	AAPSO	IDB.2/Dec.29	IDB.2/5
Agri-Energy Roundtable, Inc.	AER	IDB.2/Dec.29	IDB.2/5/Add.1
AISEC International		IDB.24/Dec.12	IDB.24/24
All-Russia Market Research Institute	VNIKI	IDB.21/Dec.13	IDB.21/28
Arab Federation for Food Industries	AFFI	IDB.2/Dec.29	IDB.2/5
Arab Fertilizers Association	AFA	IDB.2/Dec.29	IDB.2/5
Arab Iron and Steel Union	AISU	IDB.2/Dec.29	IDB.2/5
Arab Sugar Federation	ASF	IDB.2/Dec.29	IDB.2/5/Add.1
Association of African Development Finance Institutions	AADFI	IDB.2/Dec.29	IDB.2/5/Add.1
Association "Compagnia delle Opere"	CDO	IDB.21/Dec.13	IDB.21/28
Association of Financial and Industrial Groups of Russia		IDB.19/Dec.6	IDB.19/4
Association of Former United Nations Industry Development Experts	AFIDE	IDB.21/Dec.13	IDB.21/28
Association of Latin American Industrialists	AILA	IDB.2/Dec.29	IDB.2/5
Austrian Senior Experts Pool	ASEP	IDB.15/Dec.11	IDB.15/11
Austrian Society for Environment and Technology	ÖGUT	IDB.17/Dec.8	IDB.17/12
Austro-Arab Chamber of Commerce		IDB.24/Dec.12	IDB.24/24
Austro-Egyptian Chamber of Commerce		IDB.4/Dec.45	IDB.4/17
Cairo Regional Centre for International Commercial Arbitration	CRCICA	IDB.21/Dec.13	IDB.21/28
Centre d'Etude de l'Azote	CEA	IDB.2/Dec.29	IDB.2/5
Club of Dakar		IDB.2/Dec.29	IDB.2/5
Collaborative International Pesticides Analytical Council Limited	CIPAC	IDB.4/Dec.45	IDB.4/17
Deula-Nienburg (German Academy for Agriculture and Technology)		IDB.19/Dec.6	IDB.19/4/Add.1
Environmental Development Action in the Third World	ENDA	IDB.15/Dec.11	IDB.15/11/Add.1
European Federation of Management Consultants' Associations	FEACO	IDB.2/Dec.29	IDB.2/5
European Federation of National Engineering Associations	FEANI	IDB.2/Dec.29	IDB.2/5
European Federation of National Maintenance Societies	EFNMS	IDB.2/Dec.29	IDB.2/5/Add.1
European Fertilizer Manufacturers' Association	EFMA	IDB.5/Dec.41	IDB.5/23
European Organization for Quality	EOQ	IDB.2/Dec.29	IDB.2/5/Add.1
European Regional Industrial Development Organization	ERIDO	IDB.14/Dec.24	IDB.14/23
European Union of Public Relations	EUPR	IDB.14/Dec.24	IDB.14/23
Federation of African Consultants	FECA	IDB.2/Dec.29	IDB.2/5/Add.1
Forum Francophone des Affaires	FFA	IDB.14/Dec.24	IDB.14/23
Institute of Higher Management	ISG	IDB.8/Dec.40	IDB.8/14
International Academy of Architecture	IAA	IDB.8/Dec.40	IDB.8/14
International Academy of Engineering	IAE	IDB.11/Dec.36	IDB.11/16
International Academy of Technological Sciences		IDB.10/Dec.21	IDB.10/13
International Alliance of Women	IAW	IDB.8/Dec.40	IDB.8/14
International Association for Cereal Science and Technology	ICC	IDB.2/Dec.29	IDB.2/5
International Association for Continuing Engineering Education	IACEE	IDB.19/Dec.6	IDB.19/4
International Association for Hydraulic Research	IAHR	IDB.6/Dec.20	IDB.6/4
International Association for the Exchange of Students for Technical Experience	IAESTE	IDB.2/Dec.29	IDB.2/5/Add.1
International Association for the Protection of Industrial Property	AIPPI	IDB.2/Dec.29	IDB.2/5/Add.1
International Association of Crafts and Small- and Medium-sized Enterprises	IACME	IDB.2/Dec.29	IDB.2/5
International Association of Islamic Banks	IAIB	IDB.2/Dec.29	IDB.2/5
International Association of Trading Organizations for a Developing World	ASTRO	IDB.4/Dec.45	IDB.4/17
International Association ZNANIE		IDB.24/Dec.12	IDB.24/24
International Centre for Earth Construction	CRATerre	IDB.6/Dec.20	IDB.6/4
International Centre for the Training of Bank Professionals	CIFPB	IDB.6/Dec.20	IDB.6/4
International Centre on Small Hydro Power		IDB.19/Dec.6	IDB.19/4
International Chamber of Commerce	ICC	IDB.2/Dec.29	IDB.2/5
International Committee for Plastics in Agriculture	CIPA	IDB.2/Dec.29	IDB.2/5
International Confederation of Free Trade Unions	ICFTU	IDB.2/Dec.29	IDB.2/5

Name of organization	Abbreviation/ acronym	Authority/ decision	Background information document
International Congress of Industrialists and Entrepreneurs	ICIE	IDB.21/Dec.13	IDB.21/28
International Cooperative Alliance	ICA	IDB.2/Dec.29	IDB.2/5
International Council for Building Research, Studies and Documentation	CIB	IDB.2/Dec.29	IDB.2/5
International Council of Graphic Design Associations	ICOGRADA	IDB.8/Dec.40	IDB.8/14
International Council of Societies of Industrial Design	ICSID	IDB.2/Dec.29	IDB.2/5
International Council of Women	ICW	IDB.2/Dec.29	IDB.2/5
International Electrotechnical Commission	IEC	IDB.2/Dec.29	IDB.2/5
International Energy Foundation	IEF	IDB.24/Dec.12	IDB.24/24/Add.1
International Federation for Heat Treatment and Surface Engineering	IFHT	IDB.8/Dec.40	IDB.8/14
International Federation for Information Processing	IFIP	IDB.14/Dec.24	IDB.14/23
International Federation for Medical and Biological Engineering	IFMBE	IDB.2/Dec.29	IDB.2/5
International Federation of Agricultural Producers	IFAP	IDB.2/Dec.29	IDB.2/5
International Federation of Automatic Control	IFAC	IDB.2/Dec.29	IDB.2/5/Add.1
International Federation of Business and Professional Women	IFBPW	IDB.4/Dec.45	IDB.4/17
International Federation of Consulting Engineers	FIDIC	IDB.2/Dec.29	IDB.2/5/Add.1
International Federation of Pharmaceutical Manufacturers Associations	IFPMA	IDB.2/Dec.29	IDB.2/5
International Fertilizer Industry Association	IFA	IDB.2/Dec.29	IDB.2/5
International Forum		IDB.2/Dec.29	IDB.2/5
International Foundation for the Promotion of Privatization and Foreign Investments	FPI	IDB.11/Dec.36	IDB.11/6
International Institute of Applied Technologies	IIAT	IDB.14/Dec.24	IDB.14/23
International Institute of Welding	IIW	IDB.2/Dec.29	IDB.2/5/Add.1
International Measurement Confederation	IMECO	IDB.2/Dec.29	IDB.2/5
International Multiracial Shared Cultural Organization	IMSCO	IDB.17/Dec.8	IDB.17/12
International Network for Environmental Management	INEM	IDB.15/Dec.11	IDB.15/11
International Network of Subcontracting, Industrial Cooperation and Partnership Organizations	RIOST	IDB.19/Dec.6	IDB.19/4
International Organization for Standardization	ISO	IDB.2/Dec.29	IDB.2/5
International Organization of Consumers Unions	IOCU	IDB.2/Dec.29	IDB.2/5
International Organization of Employers	IOE	IDB.2/Dec.29	IDB.2/5
International Organization of Experts	ORDINEX	IDB.2/Dec.29	IDB.2/5/Add.1
International Professors' Association	IPA	IDB.10/Dec.21	IDB.10/13
International Society for Engineering Education	IGIP	IDB.2/Dec.29	IDB.2/5
International Statistical Institute	ISI	IDB.10/Dec.21	IDB.10/13
International Technology Information Center	INTERTEC	IDB.15/Dec.11	IDB.15/11
International Union for Cooperation towards Development	UNICOS	IDB.8/Dec.40	IDB.8/14
International Union of Architects	UIA	IDB.2/Dec.29	IDB.2/5
International Union of Food, Science and Technology	IUFoST	IDB.2/Dec.29	IDB.2/5/Add.1
International Union of Leather Technologists and Chemists Societies	IULTCS	IDB.2/Dec.29	IDB.2/5
International Union of Technical Associations and Organizations	UATI	IDB.2/Dec.19	IDB.2/5
International Union of Testing and Research Laboratories for Materials and Structures	RILEM	IDB.2/Dec.29	IDB.2/5/Add.1
Islamic Chamber of Commerce and Industry	ICCI	IDB.2/Dec.29	IDB.2/5
Jeunes Entreprises/Junior Achievement Afrique		IDB.14/Dec.24	IDB.14/23
Latin American Association of Development Financing Institutions	ALIDE	IDB.2/Dec.29	IDB.2/5
Latin American Association of Food Processors	ALICA	IDB.2/Dec.29	IDB.2/5
Latin American Association of Pharmaceutical Industries	ALIFAR	IDB.2/Dec.29	IDB.2/5
Latin American Iron and Steel Institute	ILAFA	IDB.2/Dec.29	IDB.2/5
Latin American Plastics Institute	ILAP	IDB.2/Dec.29	IDB.2/5/Add.1
Licensing Executives Society	LES	IDB.2/Dec.29	IDB.2/5/Add.1
Moscow International Energy Club	MIEC	IDB.6/Dec.20	IDB.6/4
Mountain Unlimited (Society for Development and International Cooperation)		IDB.21/Dec.13	IDB.21/28/Add.1
Mutual Assistance of the Latin American Government Oil Companies	ARPEL	IDB.2/Dec.29	IDB.2/5
NIMTECH		IDB.15/Dec.11	IDB.17/11
Organization of Islamic Capitals and Cities	OICC	IDB.11/Dec.36	IDB.11/16
Pan African Union of Science and Technology	PUST	IDB.10/Dec.21	IDB.10/13
Pan American Standards Commission	COPANT	IDB.2/Dec.29	IDB.2/5
"Pio Manzu" International Research Centre		IDB.2/Dec.29	IDB.2/5
Society for International Development	SID	IDB.2/Dec.29	IDB.2/5
Society of Chemical Industry	SCI	IDB.2/Dec.29	IDB.2/5

Name of organization	Abbreviation/ acronym	Authority/ decision	Background information document
Soroptimist International	SI	IDB.14/Dec.24	IDB.14/23
Support Centre for Food Development	SCFD	IDB.14/Dec.24	IDB.14/23
Third World Foundation for Social and Economic Studies		IDB.2/Dec.29	IDB.2/5
Transfrigoroute International	TI	IDB.5/Dec.41	IDB.5/23
Union of Industrial and Employers' Confederations of Europe	UNICE	IDB.2/Dec.29	IDB.2/5
Union of International Fairs	UFI	IDB.2/Dec.29	IDB.2/5
Union of Producers, Conveyors and Distributors of Electrical Power in Africa	UPDEA	IDB.2/Dec.29	IDB.2/5
Volunteers Association for International Service	AVSI	IDB.21/Dec.13	IDB.21/28
Women's International Democratic Federation	WIDF	IDB.4/Dec.45	IDB.4/17
World Association for Small and Medium Enterprises	WASME	IDB.2/Dec.29	IDB.2/5
World Association for Element-building and Prefabrication	WAEP	IDB.2/Dec.29	IDB.2/5/Add.1
World Association of Industrial and Technological Research Organizations	WAITRO	IDB.2/Dec.29	IDB.2/5
World Coal Institute	WCI	IDB.8/Dec.40	IDB.8/14
World Confederation of Labour	WCL	IDB.2/Dec.29	IDB.2/5
World Council of Management	CIOS	IDB.5/Dec.41	IDB.5/23
World Export Processing Zones Association	WEPZA	IDB.2/Dec.29	IDB.2/5
World Federation of Development Financing Institutions	WFDFI	IDB.2/Dec.29	IDB.2/5
World Federation of Engineering Organizations	WFEO	IDB.2/Dec.29	IDB.2/5
World Federation of Free Zones	FEMOZA	IDB.27/Dec.11	IDB.27/18
World Federation of Trade Unions	WFTU	IDB.2/Dec.29	IDB.2/5
World LPG Association	WLPGA	IDB.19/Dec.6	IDB.19/4
World Organization of Building Officials	WOBO	IDB.5/Dec.41	IDB.5/23
World Packaging Organization	WPO	IDB.8/Dec.40	IDB.8/14
World Savings Bank Institute	WSBI	IDB.2/Dec.29	IDB.2/5/Add.1
World Vision International	WVI	IDB.25/Dec.10	IDB.25/7

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United Nations Industrial Development Organization

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GENERAL CONFERENCE

Tenth session
Vienna, 1-5 December 2003
Item 10 (b) of the provisional agenda

FINANCIAL SITUATION OF UNIDO

Request from Lithuania for restoration of voting rights based on payment plan

Note by the Director-General

Draws the attention of the Conference to a request from Lithuania for restoration of voting rights based on a payment plan agreement and provides information on the status of payments.

Introduction

1. A letter dated 2 September 2003 from the Minister of Foreign Affairs of Lithuania requesting a decision by the General Conference on the restoration of voting rights is shown in the annex to the present document. The letter was also circulated to permanent missions with an information note on 10 September 2003.

I. PAYMENT PLAN AND STATUS OF PAYMENTS

2. Since joining the Organization in 1991, payments from Lithuania amounting to €906,216 have been received. On 1 January 2003, the outstanding assessed contributions amounted to €434,241, for which a payment plan agreement was concluded, signed by Lithuania on 6 March 2003 and by UNIDO on 7 April 2003, for a five-year period. The agreement is in accordance with the terms for payment plans outlined in the report of the open-ended discussion group on timely payment of assessed contributions (IDB.19/12 and Corr.1), adopted by the Industrial Development Board in decision IDB.19/Dec.5. As stipulated in the agreement, the first instalment of €98,920 was paid by Lithuania on 12 June 2003, making the plan operational.

II. VOTING RIGHTS

3. Article 5.2 of the UNIDO Constitution stipulates that any organ may permit a Member in arrears to vote in that organ if it is satisfied that the failure to pay is due to conditions beyond the control of the Member. Voting rights are governed by the respective rules of procedure of the governing bodies (rule 91 of the General Conference, rule 50 of the Industrial Development Board and rule 42 of the Programme and Budget Committee). In its report to the Board, the open-ended discussion group on timely payment of assessed contributions states: "When considering applications for the restoration of voting rights, the competent body should regularly take into account the state of payments made under an agreed payment plan" (IDB.19/12 and Corr.1, para. 14).

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III. ACTION REQUIRED OF THE CONFERENCE

4. The Conference may wish to consider adopting the following draft decision:

"The General Conference:

"(a) Recalls the report of the open-ended discussion group on timely payment of assessed contributions (IDB.19/12 and Corr.1), in particular paragraphs 13 and 14;

"(b) Also recalls Board decision IDB.19/Dec.5 and General Conference decision GC.9/Dec.12;

"(c) Welcomes the commitment of Lithuania to settle its arrears, as reported in document GC.10/11;

"(d) Gives satisfaction to the request by Lithuania for the restoration of its voting rights in accordance with Article 5.2 of the UNIDO Constitution;

"(e) Takes note of the signature of a payment plan agreement and encourages Lithuania to pay regularly its instalments in line with the conditions therein."

Annex

LETTER FROM MINISTER OF FOREIGN AFFAIRS OF LITHUANIA

Republic of Lithuania
Minister of Foreign Affairs

Vilnius, 02 September 2003

Excellency,

I have the honour to inform you that the Government of the Republic of Lithuania would like to request to restore Lithuanian's right to vote in the United Nations Industrial Development Organization (UNIDO), as great efforts have been made to settle its arrears to the UNIDO budget under a payment plan.

The substantial arrears accumulated by Lithuania are the result of the outdated system of apportionment of the expenditures in the organizations of the UN system, which over many years was unable to adequately take into account the Member State's capacity to pay, as well as timely reflect the changes in their economic and financial potential.

Being committed to the objectives of the UNIDO activities and wishing to continue fruitful cooperation, the Government of Lithuania is ready to settle its outstanding contributions, which have emerged due to the conditions beyond its control, and has signed a payment plan agreement with UNIDO on 6 March 2003, amounting to Euro 434,241 over a period of five years. The first installment of Euro 98,920 was paid on 12 June 2003, as stipulated in the agreement.

In view of this, I would like to ask the General Conference of the UNIDO to take a positive decision on restoring Lithuania's right to vote, commencing with the 10th session of the General Conference, based on the provisions of Article 5 of the UNIDO Constitution.

I should be grateful if this letter could be made available to the Member States of the Organization.

Please, accept, Excellency, the assurances of my highest consideration.

[*Signed*]

Antanas Valionis

H.E. Dr. Carlos Magariños
Director-General
United Nations Industrial Development Organization
UNIDO

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Tenth session
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FINANCIAL SITUATION OF UNIDO

Report by the Director-General

Provides information on the financial situation of UNIDO, including arrears and the amounts due for distribution, as at 30 September 2003, as well as on significant financial developments that have affected the Organization during the biennium.

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I. OVERVIEW

1. The financial situation as at 30 September 2003 can be summarized in the following major points:

(a) The overall implementation rate of 79 per cent of the regular budget reflects a slightly higher level than that of the previous biennium (annex I). The rate is expected to increase to 94 per cent by the end of the biennium;

(b) The operational budget recorded a surplus of €0.5 million. This was achieved through a higher-than-budgeted vacancy rate and savings from prior biennium's obligations. The reserve level thus increased from €3.3 million on 1 January 2002 to €3.8 million on 30 September 2003. The level is expected to be approximately €3.6 million by the end of the biennium and hence the biennium is likely to record a surplus of €0.3 million;

(c) The expenditure level for buildings management amounted to 68 per cent of the 2002-2003 appropriations, reflecting an increase as compared with the previous biennium (64 per cent);

(d) The level of regular budget cash resources (including the Working Capital Fund) was €38.5 million. In comparison, the cash balance as at 30 September 2002 and 2001 was €34.6 million and €17.9 million, respectively;

(e) The collection rate of 2003 assessed contributions was 90.3 per cent and was favourable compared to the 2002 and 2001 rates of 89.8 and 62.2 per cent, respectively;

(f) The collection rate of prior years' arrears, as compared to the current year's assessments, was 2 per cent. The collection rates as at 30 September 2002 and 2001, as compared to the assessments of those years, were 4.6 and 16.5 per cent, respectively;

(g) Outstanding assessed contributions amounted to €116.5 million (including arrears of €69.2 million by the United States of America and €2.1 million by the former Yugoslavia). The outstanding amounts as at 30 September 2002 and 2001 were €114.8 million and €132.3 million, respectively;

(h) The Working Capital Fund is at the level of €7,423,030; however, an amount of €101,112 was outstanding as of 30 September 2003;

(i) A total of €1,509,265 from the following sources was credited to eligible Member States when their assessed contributions for the year 2003 were calculated:

• Uunencumbered balances of appropriations relating to the bienniums 1992-1993, 1996-1997 and 1998-1999, received by 31 October 2002	€791,258
• Income from new Member States	299,793
• Interest income in excess of budgetary estimates for 2001	418,214
Total	€1,509,265;

(j) A total amount of €4,452,807 from the following sources is due for distribution, unless decided otherwise by the Conference:

• Unencumbered balances of appropriations relating to the bienniums 1992-1993, 1996-1997, 1998-1999, and 2000-2001, including amounts received during the period 1 November 2002 to 31 October 2003 (provisional amount)	€4,376,802
• Income from new Member States	76,005
Total	€4,452,807;

Regarding interest income in excess of budgetary estimates, the next incentive amount is due for distribution in January 2005, i.e. one year after the end of the current biennium.

2. A conference room paper will provide information on the current status of assessed contributions and voting rights, updated to 30 November 2003.

II. REGULAR AND OPERATIONAL BUDGETS

3. The status of the regular and operational budgets, as at 30 September 2003, was as follows:

(a) The status of the regular budget for the period 1 January 2002 to 30 September 2003 is presented in annex I (tables 1 and 2), by major programme and major object of expenditure. The overall implementation rate of 79 per cent of gross budgeted expenditures reflects a slightly higher level than that of the same period of the preceding biennium (78 per cent). The rate of implementation is expected to increase to 94 per cent during the final quarter of the biennium due to accelerated implementation of programmes, particularly in respect of the Industrial Development Decade for Africa. Further payments and other budgetary expenditures relating to conference services and common services will be incurred before the end of the year in connection with the General Conference;

(b) To strengthen the level of the operational budget reserve, operational budget expenditures were contained through maintaining a higher-than-budgeted vacancy factor. As a result of this measure, together with savings of €0.6 million on the prior biennium's obligations, the operational budget recorded a surplus of €0.7 million, which was offset by a loss of exchange of €0.2 million. The reserve level thus increased from €3.3 million on 1 January 2002 to €3.8 million as of 30 September 2003, as shown in table 1. The level for the end of the biennium is expected to be approximately €3.6 million, due to an expected decrease in expenditure in the remaining period of the biennium, as well as additional income due to a change in the payment modality of support cost income under the Montreal Protocol.

Table 1. Operational budget reserve
(Millions of US dollars)

Operational budget reserve as at 1 January 2002	3.3
Savings on liquidation of prior biennium obligations	0.6
Income (1 January 2002 to 30 September 2003)	18.4
Subtotal	*22.3*
Expenditures (1 January 2002 to 30 September 2003)	(18.3)
Loss on exchange	(0.2)
Operational budget reserve as at 30 September 2003	3.8

(c) The Buildings management budget has been implemented smoothly. Expenditure for the period 1 January 2002 to 30 September 2003 amounted to €25.7 million, representing some 68 per cent of the 2002-2003 appropriations. As compared to this, expenditure for the same period of the previous biennium amounted to 64 per cent of the 2000-2001 appropriations

III. ASSESSED CONTRIBUTIONS

Collections

4. A total of 65 Member States, including 11 least developed countries, have made full payments and 29 Member States have made partial payments of their 2003 assessed contributions. Collections in the year 2003, including applications of overpayments and other adjustments, broken down by List of States, are shown in table 2.

Outstanding contributions

5. Annex II to the present document provides detailed status of assessed contributions outstanding as at 30 September 2003, including the status of voting rights of each Member State, and the minimum payment required to gain voting rights. Table 3 provides information on outstanding contributions as at 30 September 2003, and on the same date in 2002 and 2001, the latter was revalued for comparison (US$ to EUR).

Table 2. Collections, January to September 2003
(Millions of euros)

List of States*	Current year	Prior years	Total
A	5.85	0.63	6.48
B	51.60	-	51.60
C	1.07	0.05	1.12
D	1.86	0.68	2.54
Others	--	--	--
Subtotal	*60.38*	*1.36*	*61.74*
Former Yugoslavia	0.00	-	0.00
USA	0.00	-	0.00
Total	**60.38**	**1.36**	**61.74**

* *As contained in document IDB.27/11/Rev.1.*

Table 3. Outstanding contributions as at 30 September
(Millions of euros)

	2003	2002	2001
Current year	6.46	6.79	24.89
Prior years	38.74	36.70	38.15
Subtotal	45.20	43.49	63.04
Former Yugoslavia	2.08	2.08	
USA	69.23	69.26	69.26
Total	**116.51**	**114.83**	**132.30**

6. The scale of assessments and outstanding contributions as at 30 September 2003, broken down by List of States, are shown in table 4.

Table 4. Scale of assessment and outstanding contributions as at 30 September 2003

List of States*	Scale of assessment (%)	(Millions of euros) Current year	Prior years	Total
A	10.76325	1.35	5.59	6.94
B	77.95675	0.50	0.00	0.50
C	8.05800	4.32	19.73	24.05
D	3.21700	0.29	12.93	13.22
Others	0.00500	0.00	0.49	0.49
Subtotal	*100.00000*	*6.46*	*38.74*	*45.20*
Former Yugoslavia	--	--	2.08	2.08
USA	--	--	69.23	69.23
Total	**100**	**6.46**	**110.05**	**116.51**

* *As contained in document IDB.27/11/Rev.1.*

IV. VOTING RIGHTS

7. As indicated in annex II, the voting rights of 50 Member States were suspended as at 30 September 2003 in accordance with Article 5.2 of the Constitution and financial regulation 5.5(b). The number of Member States with no voting rights of the various governing bodies is shown in table 5. For comparison, the status as at 30 September 2002 and 2001 is also shown in the table. The improvement of the number of voting rights over the last two bienniums has been reduced notably from 67 in 1999 to 50 in 2003.

Table 5. Suspension of voting rights as at 30 September

	Number of Member States with no voting rights		
	2003	2002	2001
General Conference	50	51	57
Industrial Development Board	1	1	1
Programme and Budget Committee	1	1	1

8. In order to restore voting rights, these Member States must pay a minimum combined amount of €23,722,792 (annex II).

V. IMPLEMENTATION OF RECOMMENDATIONS OF THE GROUP ON TIMELY PAYMENTS

Payment plans

9. Payment plans have been approved and are currently in operation with a duration of ten years for Azerbaijan (€1.3 million, reference IDB.26/Dec.4) and Ukraine (€9.7 million, reference GC.9/Dec.12); five years for Lithuania (€434,241, reference GC.10/11); and three years for Belarus (€452,373, reference GC.10/15). These Member States have made payments as stipulated in their respective payment plans. Negotiations are currently under way with Brazil. Preliminary/informal negotiations are ongoing with a number of other Member States. Concerned Member States have been regularly informed and reminded of their financial obligations and the possibility to settle arrears under payment plans.

10. In this regard, the report of the Committee of Contributions to the General Assembly (sixty-third session, 2-27 June 2003) reaffirmed its earlier conclusion that multi-year payment plans are a useful tool for reducing unpaid assessed contributions and a way for Member States to demonstrate their commitment to meeting their financial obligations. The Committee had also recommended that, for those Member States that are in a position to submit a payment plan, the Committee and the General Assembly should take the submission of a plan and its status of implementation into account as one factor when considering requests for exemption under Article 19.

Incentives and disincentives to encourage timely payment of assessed contributions

11. Information on incentives/disincentives was provided to the nineteenth session of the Programme and Budget Committee (PBC.19/CRP.2). In addition, annex III to document IDB.27/10 provides information on practices in place in other organizations in the United Nations system as of March 2003, as obtained from the Secretariat of the Chief Executives Board for Coordination. (The Secretariat has received an updated version of this report as of September 2003, however, without noticeable changes on this issue.) In the report of the Committee on Contributions (June 2003) to the General Assembly, under measures to encourage the payment of arrears, it is mentioned, inter alia, among the specific measures that were considered by the Committee at its earlier sessions were: a new assessed fund; crediting only Member States that are current with their financial obligations to the Organization in respect of budgetary surpluses; incentive payments based on the payment status of Member States; restricting access of citizens and companies of Member States in arrears to opportunities for United Nations recruitment and procurement; ineligibility of Member States in arrears for elections to committees and other bodies; interest on or indexation of arrears; and multi-year payment plans. The Committee decided to consider the question of measures to encourage the payment of arrears further at its sixty-fourth session (June 2004) in the light of any guidance from the General Assembly and of updated information from the Secretariat on the related experience of other organizations of the United Nations system and to report thereon to the General Assembly before the end of its fifty-eighth session (September 2004). The Secretariat will follow closely further developments and will inform the governing bodies accordingly.

Arrears by former Member States—United States of America

12. The amounts owed to UNIDO by the United States are as follows:

Assessed contributions, 1994 to 1996	€69,228,235
Income taxes (under the Tax Reimbursement Agreement)	€ 956,753

13. UNIDO has taken up the matter on a number of occasions with the Permanent Representative of the United States of America to the United Nations (Vienna), expressing serious concern that the outstanding amounts have not been settled and requested further to receive an indication as to when payments of these arrears are foreseen. On 24 July 2003, the Permanent Representative informed UNIDO that no specific timeframe can be provided as to when payment of its arrears will be made and that United States legislation does not currently permit the allocation of funds designated for payment of these obligations. Unfortunately, it is currently impossible to predict when a more favourable set of circumstances will arise. However, the United States remains committed to meeting its financial obligations to UNIDO.

Former Yugoslavia

14. The arrears of the former Yugoslavia amount to €2,081,702 for the period 1990-2001. The United Nations General Assembly decided to consider further the question of the outstanding assessed contributions of the former Yugoslavia at its fifty-eighth session. Should any information be received by the Secretariat on this issue, the UNIDO governing bodies will be informed accordingly.

VI. UNENCUMBERED BALANCES OF APPROPRIATIONS AND INCOME FROM NEW MEMBER STATES

Implementation of decision GC.9/Dec.10

15. A summary status of the implementation of decision GC.9/Dec.10 as of 31 October 2003, updating the information reported in documents IDB.26/9 and IDB.27/10, is shown in table 6.

Table 6. Implementation of decision GC.9/10 Status as at 31 October 2003

	€
Total amount available	7,195,414
Preference stated by Member States:	
Regular budget	186,481
IDF general-purpose	930,589
IDF special-purpose/integrated programme	2,412,159
Application against assessed contributions	2,840,811
Return or other purpose	176,495
Request/credit upon eligibility	212,422
Total	6,758,957
Amount outstanding (no response to date)	436,457

In decision IDB.26/Dec.3, the Board recommended to the General Conference to allow the Secretariat to use for integrated programmes or country service frameworks each country's share as specified in decision GC.9/Dec.10, if no response has been received by 31 December 2003.

16. As stated in document IDB.27/10, paragraph 21, funds arising from unencumbered balances and income from new Member States were placed in a special account. The status of that account as at 31 October 2003 amounted to $68,788. Should no other decision be taken by the General Conference, this amount will be transferred to general-purpose IDF funds for the exclusive purpose approved by the General Conference (GC.8/Res.4).

Amount distributed to Member States on 1 January 2003

17. An amount of €791,258, relating to the bienniums 1992-1993, 1996-1997 and 1998-1999 was paid by Member States against outstanding assessed contributions by 31 October 2002. In accordance with financial regulations 4.2(b) and (c), that amount was due for distribution in January 2003 to those Member States that had fully paid their assessed contributions for the respective bienniums and in accordance with their prevailing scale of assessments. Accordingly, credits were given to eligible Member States when the assessed contributions for the year 2003 were calculated.

Amount available for distribution to Member States on 1 January 2004

18. As of 31 October 2003, the unutilized/unencumbered balances of appropriations relating to the bienniums 1992-1993, 1996-1997, 1998-1999 and 2000-2001, provisionally amounts to €4,376,802, broken down as follows:

Biennium	€
1992-1993	73,393
1996-1997	133,912
1998-1999	271,645
2000-2001	3,897,852
Total	4,376,802

19. The above amount will be due for distribution in January 2004, in accordance with financial regulations 4.2(b) and (c), to those Member States that have fully paid their assessed contributions for the above bienniums in accordance with the respective scale of assessment for those bienniums, unless decided otherwise by the Conference.

20. In this connection, reference is made to General Conference resolution GC.8/Res.4 and decision GC.9/Dec.10, which, inter alia, strongly encouraged Member States to renounce their shares of the unencumbered balances of appropriations for the purpose of advancing UNIDO's activities.

Income from new Member States

21. Income received from new Member States amounting to €299,793 was credited to Member States on 1 January 2003.

22. An amount of €76,005 from new Members has been received in 2003. In accordance with financial regulations 4.2 and 5.2(c), this amount is also required to be distributed to Member States on 1 January 2004, unless decided otherwise by the Conference.

VII. ACTION REQUIRED OF THE CONFERENCE

23. The Conference may wish to consider adopting the following draft decision:

"The General Conference:

(a) Takes note of the information provided in document GC.10/12;

(b) Urges those Member States and former Member States that have not yet paid their assessed contributions, including advances to the Working Capital Fund and prior years' arrears, to do so without delay;

(c) Requests the Director-General to pursue his efforts and contacts with Member States to effect the collection of arrears;

(d) Having taken note of the recommendation of the Industrial Development Board in decision IDB.26/Dec.3, decides to allow the Secretariat to use for integrated programmes or country service frameworks each country's share and amount of the unencumbered balances of appropriations, income from New Member States and interest income in excess of budgetary estimates, as specified in decision GC.9/Dec.10, if no response has been received by 31 December 2003 from the concerned States on the use of those funds amounting to €840,818, as contained in annex II to document IDB.26/9 (funds available as of 31 October 2003: €436,457)."

Annex I

REGULAR BUDGET PERFORMANCE REPORT, 2002-2003

Table 1. Status of implementation by major programme, 1 January 2002 to 30 September 2003

(In thousands of euros)

Major Programme	Approved budget estimates[a] (a)			Actual expenditure/income (b)			Implementation of gross approved budget (b4/a1)	Unutilized balance as at 30/9/03 (c)=(a-b)		
	1	2	3	4	5	6	7	8	9	10
	Gross	Income	Net (1-2)	Gross	Income	Net (4-5)	%	Gross	Income	Net (8-9)
A. Governing Bodies	5,349.7		5,349.7	3,308.2	-	3,308.2	620	2,041.5	-	2,041.5
B. General Management	9,699.2		9,699.2	9,720.7	-	9,720.7	100.0	(21.5)	-	(21.5)
C. Strengthening of Industrial Capacities	37,105.2		37,105.2	25,874.9	-	25,874.9	70.0	11,230.3	-	11,230.3
D. Cleaner and Sustainable Industrial Development	21,979.4		21,979.4	18,425.9	-	18,425.9	84.0	3,553.5	-	3,553.5
E. Regional Programme	32,633.9	2,515.3	30,118.6	25,096.5	950.1	24,146.4	77.0	7,537.4	1,565.2	5,972.2
F. Administration	18,749.7		18,749.7	15,762.9	-	15,762.9	84.0	2,986.8	-	2,986.8
H. Indirect Costs[b]	12,405.2		12,405.2	10,389.3		10,389.3	84.0	2,015.9		2,015.9
Miscellaneous Income		1,717.2	(1,717.2)		2,719.9	(2,719.9)	158.0	-	(1,002.7)	1,002.7
Total—regular budget	**137,922.3**	**4,232.5**	**133,689.8**	**108,578.4**	**3,670.0**	**104,908.4**	**79.0**	**29,343.9**	**562.5**	**28,781.4**
Other Headquarters funds										
G. Buildings Management[c]	37,550.5	37,550.5	-	25,663.4	25,663.4	-	68.0	11,887.1	11,887.1	-

Notes:

[a] See IDB.24/3.

[b] Including UNIDO's share in common buildings management.

[c] Non-staff costs are covered by advance contributions to special buildings management account. Staff costs are recovered based on disbursements.

Table 2. Status of implementation by major object of expenditure, 1 January 2002 to 30 September 2003
(In thousands of euros)

Major object of expenditure	Approved budget estimates[a]	Actual expenditure/ income 01/01/02 to 30/09/03	Implementation rate	Unutilized balance of approved budget estimates at 30/09/03
	1	2	3 = 2 over 1	4 = 1-2
A. Regular budget			%	
Gross expenditure				
1 Staff costs	90,135.3	73,776.2	82.0	16,359.1
2 Official travel	2,550.0	1,563.1	61.0	986.9
3 Operating costs[b]	25,543.3	18,419.9	72.0	7,123.4
4 Information and communication technology	6,169.8	4,343.7	70.0	1,826.1
5 RPTC and IDDA supplementary activities	13,523.9	10,475.5	77.0	3,048.4
Total gross expenditure	137,922.3	108,578.4	79.0	29,343.9
Income				
3 Operating costs (Regional Programme)	2,515.3	950.1	38.0	1,565.2
Miscellaneous income	1,717.2	2,719.9	158.0	(1,002.7)
Total income	4,232.5	3,670.0	87.0	562.5
Total net—A	133,689.8	104,908.4	78.0	28,781.4
B. Other Headquarter funds for buildings management[c]				
Gross expenditure				
1 Staff costs	12,770.0	9,855.2	77.0	2,914.8
2 Official travel	11.1	4.9	44.0	6.2
3 Operating costs[b]	24,769.4	15,803.3	64.0	8,966.1
Total gross expenditure	37,550.5	25,663.4	68.0	11,887.1
Income[d]	37,550.5	25,663.4	68.0	11,887.1
Total net—B	0.0	0.0	0.0	0.0

Notes:

[a] See IDB.24/3.

[b] Including UNIDO's share in common buildings management services.

[c] The total costs of buildings management are being cost-shared between all users. UNIDO's net share is included under operating costs shown under (A) above.

[d] Non-staff costs are covered by advance contributions to special buildings management account. Staff costs are recovered based on disbursements.

Annex II

STATUS OF ASSESSED CONTRIBUTIONS TO THE UNIDO REGULAR BUDGET
as at 30 September 2003 (in euros)

Country Name	Outstanding assessed contributions	WCF 2003	Total due:	Years	Voting Rights [a]	Minimum payment to gain voting rights
Afghanistan	90,146	434	90,580	1992(p) - 2003	No	74,780
Albania	7,012		7,012	2001(p) - 2003	Yes	
Algeria			0	-	Yes	
Angola	15		15	2003 (p)	Yes	
Argentina	4,638,854		4,638,854	1999(p) - 2003	No	1,482,950
Armenia	914,760		914,760	1992(p) - 2003	No	905,090
Austria			0	-	Yes	
Azerbaijan	1,021,570		1,021,570	1994(p) - 2003	No	1,004,712
Bahamas			0	-	Yes	
Bahrain	506		506	2003 (p)	Yes	
Bangladesh			0	-	Yes	
Barbados	688		688	2003 (p)	Yes	
Belarus	275,188		275,188	1999(p) - 2003	No	186,370
Belgium			0	-	Yes	
Belize	562		562	2003 (p)	Yes	
Benin	7,076		7,076	2000(p) - 2003	No	1,280
Bhutan			0	-	Yes	
Bolivia	14,666		14,666	2002(p) - 2003	Yes	
Bosnia and Herzegovina	3,392		3,392	2002(p) - 2003	Yes	
Botswana			0	-	Yes	
Brazil	16,554,949	81,251	16,636,200	1995(p)- 2003	No	11,145,330
Bulgaria			0	-	Yes	
Burkina Faso	3,026		3,026	2002(p) - 2003	Yes	
Burundi	66,368		66,368	1993(p) - 2003	No	64,540
Cambodia	4,010	73	4,083	2002(p) - 2003	Yes	
Cameroon			0	-	Yes	
Cape Verde	96,115		96,115	1991(p) - 2003	No	93,000
Central African Republic	111,478		111,478	1989(p) - 2003	No	109,650
Chad	94,585		94,585	1991(p) - 2003	No	92,750
Chile	354,661	1,028	355,689	2002(p) - 2003	Yes	
China			0	-	Yes	
Colombia	330,788	1,459	332,247	2002(p) - 2003	Yes	
Comoros	134,657		134,657	1986(p) - 2003	No	132,830
Congo, Republic of	109,354		109,354	1989(p) - 2003	No	105,590
Costa Rica	109,010		109,010	1995(p) - 2003	No	57,580
Cote d'Ivoire	24,134		24,134	2001(p) - 2003	Yes	
Croatia			0	-	Yes	
Cuba	26,672		26,672	2003 (p)	Yes	
Cyprus			0	-	Yes	
Czech Republic			0	-	Yes	
Democratic People's Republic of Korea	4,279		4,279	2003 (p)	Yes	
Democratic Republic of the	121,858		121,858	1989(p) - 2003	No	108,870

Country Name	Outstanding assessed contributions	WCF 2003	Total due:	Years	Voting Rights [a]	Minimum payment to gain voting rights
Congo						
Denmark			0	-	Yes	
Djibouti	93,563		93,563	1991(p) - 2003	No	91,730
Dominica	1,734		1,734	2001(p) - 2003	Yes	
Dominican Republic	350,535	2,132	352,667	1986(p) - 2003	No	297,180
Ecuador			0	-	Yes	
Egypt	71,745		71,745	2003 (p)	Yes	
El Salvador	175,708	1,784	177,492	1988 - 2003	No	132,610
Equatorial Guinea	134,657		134,657	1986(p) - 2003	No	132,830
Eritrea	639		639	2003 (p)	Yes	
Ethiopia			0	-	Yes	
Fiji			0	-	Yes	
Finland			0	-	Yes	
France			0	-	Yes	
Gabon	38,458		38,458	2001(p) - 2003	Yes	
Gambia	74,084		74,084	1992(p) - 2003	No	72,250
Georgia	1,599,047		1,599,047	1992(p) - 2003	No	1,583,390
Germany			0	-	Yes	
Ghana	1,610		1,610	2003 (p)	Yes	
Greece			0	-	Yes	
Grenada	76,959		76,959	1992(p) - 2003	No	75,130
Guatemala	280		280	2003 (p)	Yes	
Guinea	21,325		21,325	1998(p) - 2003	No	13,550
Guinea-Bissau	116,788		116,788	1988(p) - 2003	No	114,960
Guyana	1,800		1,800	2001(p) - 2003	Yes	
Haiti	3,817		3,817	2002(p) - 2003	Yes	
Honduras			0	-	Yes	
Hungary			0	-	Yes	
India	200		200	2003 (p)	Yes	
Indonesia			0	-	Yes	
Iran (Islamic Republic of)	510,996		510,996	2001(p) - 2003	Yes	
Iraq	1,697,868	10,696	1,708,564	1991(p) - 2003	No	1,461,810
Ireland			0	-	Yes	
Israel	372,444		372,444	2003 (p)	Yes	
Italy			0	-	Yes	
Jamaica	11,530		11,530	2001(p) - 2003	Yes	
Japan			0	-	Yes	
Jordan			0	-	Yes	
Kazakhstan	495,863		495,863	1998(p) - 2003	No	398,060
Kenya			0	-	Yes	
Kuwait			0	-	Yes	
Kyrgyzstan	375,752		375,752	1993(p) - 2003	No	368,760
Lao People's Democratic Republic			0	-	Yes	
Lebanon	20,479		20,479	2002(p) - 2003	Yes	
Lesotho			0	-	Yes	
Liberia	105,978		105,978	1990(p) - 2003	No	102,860

Country Name	Outstanding assessed contributions	WCF 2003	Total due:	Years	Voting Rights [a]	Minimum payment to gain voting rights
Libyan Arab Jamahiriya	190,543		190,543	2001(p) - 2003	Yes	
Lithuania	335,321		335,321	1996(p) - 2003	No	290,530
Luxembourg	73,672		73,672	2003 (p)	Yes	
Madagascar			0	-	Yes	
Malawi	38,194		38,194	1996(p) - 2003	No	32,400
Malaysia			0	-	Yes	
Maldives	577		577	2003 (p)	Yes	
Mali	19,136		19,136	1998(p) - 2003	No	13,340
Malta			0	-	Yes	
Mauritania	113,982		113,982	1988(p) - 2003	No	112,150
Mauritius			0	-	Yes	
Mexico	210,056		210,056	2003 (p)	Yes	
Monaco			0	2003	Yes	
Mongolia	1,065		1,065	2002(p) - 2003	Yes	
Morocco	38,976		38,976	2003 (p)	Yes	
Mozambique			0	-	Yes	
Myanmar	6,577		6,577	2003 (p)	Yes	
Namibia			0	-	Yes	
Nepal			0	-	Yes	
Netherlands			0	-	Yes	
New Zealand			0	-	Yes	
Nicaragua	134,643		134,643	1986(p) - 2003	No	132,810
Niger	96,150		96,150	1991(p) - 2003	No	93,030
Nigeria	89,011		89,011	2002(p) - 2003	Yes	
Norway			0	-	Yes	
Oman			0	-	Yes	
Pakistan	56,431		56,431	2002(p) - 2003	Yes	
Panama	2,193		2 193	2003 (p)	Yes	
Papua New Guinea	5,241		5,241	2003 (p)	Yes	
Paraguay	63,720	682	64,402	1998(p) - 2003	No	21,590
Peru	296,101		296,101	2001(p) - 2003	Yes	
Philippines	101,621		101,621	2002(p) - 2003	Yes	
Poland	41,061		41,061	2003 (p)	Yes	
Portugal	431,083		431,083	2003 (p)	Yes	
Qatar			0	-	Yes	
Republic of Korea			0	-	Yes	
Republic of Moldova	872,848		872,848	1993(p) - 2003	No	859,310
Romania	50,631		50,631	2003 (p)	Yes	
Russian Federation			0	-	Yes	
Rwanda	9,263		9,263	1999(p) - 2003	No	7,430
Saint Kitts and Nevis			0	-	Yes	
Saint Lucia	1,914		1,914	2003 (p)	Yes	
Saint Vincent and the Grenadines	110,948		110,948	1989(p) - 2003	No	109,120
Sao Tome and Principe	134,657		134,657	1986(p) - 2003	No	132,830
Saudi Arabia			0	-	Yes	
Senegal			0	-	Yes	

Country Name	Outstanding assessed contributions	WCF 2003	Total due:	Years	Voting Rights [a]	Minimum payment to gain voting rights
Serbia and Montenegro	18,049		18,049	2003	Yes	
Seychelles	45,828		45,828	1995(p) - 2003	**No**	40,030
Sierra Leone	84,277		84,277	1992(p) - 2003	**No**	82,450
Slovakia			0	-	Yes	
Slovenia	331,781	1,229	333,010	1999(p) - 2003	**No**	127,360
Somalia	134,656		134,656	1986(p) - 2003	**No**	132,830
South Africa			0	-	Yes	
Spain			0	-	Yes	
Sri Lanka			0	-	Yes	
Sudan	4,615		4,615	2003 (p)	Yes	
Suriname	41,522		41,522	1996(p) - 2003	**No**	33,790
Swaziland			0	-	Yes	
Sweden			0	-	Yes	
Switzerland			0	-	Yes	
Syrian Arab Republic			0	-	Yes	
Tajikistan	277,104		277,104	1993(p) - 2003	**No**	272,050
Thailand	75,331		75,331	2003 (p)	Yes	
The Former Yugoslav Republic of Macedonia	10,700		10,700	2001(p) - 2003	Yes	
Timor-Leste	668	74	742	2003		
Togo	72,475		72,475	1993(p) - 2003	No	70,640
Tonga			0	-	Yes	
Trinidad and Tobago	14,457		14,457	2003 (p)	Yes	
Tunisia	2,336		2,336	2003 (p)	Yes	
Turkey			0	-	**Yes**	
Turkmenistan	207,640	270	207,910	1995(p) - 2003	No	196,900
Uganda			0	-	Yes	
Ukraine	7,737,629		7,737,629	1995(p) - 2003	[b]	Payment Plan
United Arab Emirates			0	-	Yes	
United Kingdom			0	-	Yes	
United Republic of Tanzania			0	-	Yes	
Uruguay	192,516		192,516	2001(p) - 2003	**Yes**	
Uzbekistan	469,275		469,275	1997(p) - 2003	**No**	425,500
Vanuatu	78,344		78,344	1992(p) - 2003	No	76,510
Venezuela	328,131		328,131	2002(p) - 2003	Yes	
Viet Nam			0	-	Yes	
Yemen	5,563		5,563	2003 (p)	**Yes**	
Zambia	55,544		55,544	1994(p) - 2003	No	49,750
Zimbabwe	7,226		7,226	2003 (p)	Yes	
Subtotal:	**45,195,520**	**101,112**	**45,296,632**			23,722,792
Yugoslavia (Former)	2,081,702		2,081,702	1990(p) - 2001		[c]
Non-Member: United States of America[d]	69,228,235		69,228,235	1994(p)-1996		
TOTAL	**116,505,457**	**101,112**	**116,606,569**			**23,722,792**

Summary of outstanding assessed contributions by year:	EUROS:
1986 / 1987	103,875
1988 / 1989	192,229
1990 / 1991	1,288,920
1992 / 1993	2,086,969
1994 / 1995	46,928,417
1996 / 1997	40,127,507
1998 / 1999	8,601,814
2000 / 2001	6,334,626
2002	4,375,451
Subtotal:	110,039,808
2003	6,465,649
TOTAL:	116,505,457

Notes:

(p) refers to partial payment

[a] Voting rights of 50 Member States have been suspended in accordance with Article 5.2 of the Constitution of UNIDO.

[b] In decision GC.9/Dec.12, the General Conference approved a payment plan for Ukraine, and restored the voting rights of Ukraine in accordance with Article 5.2 of the Constitution.

[c] Outstanding contribution to be resolved.

[d] Member State of UNIDO until 31 December 1996

Since 1 October 2003, the following Member States have paid:

Albania	2003 (full)
Benin	2002 (p) - has regained voting rights. Total number reduced to 49.
Haiti	2003 (full)
Honduras	2004 (overpayment)
Morocco	2003 (p)
Philippines	2003 (p)
Portugal	2003 (full)
The Former Yugoslav Republic of Macedonia	2002 (p)
Uganda	2004 (overpayment)
Ukraine	3rd instalment of payment plan.

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THE ROLE OF INDUSTRIAL DEVELOPMENT IN THE ACHIEVEMENT OF THE MILLENNIUM DEVELOPMENT GOALS

Industrial Development Forum

Theme paper submitted by the Secretariat

Abbreviations

AIDS	acquired immunodeficiency syndrome
FDI	foreign direct investment
GDP	gross domestic product
HIV	human immunodeficiency virus
LDC	least developed country
MDG	Millennium Development Goal
NEPAD	New Partnership for Africa's Development
PRSP	Poverty Reduction Strategy Paper
SME	small and medium enterprise
TB	tuberculosis
TICAD	Tokyo International Conference on African Development

Introduction

1. The key issue to be addressed at the Forum concerns the interface between the Millennium Development Goals (MDGs) and the initiation of sustainable industrial development processes in the least developed countries (LDCs). More specifically, the following questions will be posed:

(a) Why are the LDCs increasingly lagging behind the rest of the developing world and, save for a few cases, find it so hard to take advantage of successful policy experiences elsewhere?

(b) What is the role of the MDGs in enabling the LDCs to gear up for structural change and industrialization?

(c) How should structural change and industrialization be factored into the MDGs and the Poverty Reduction Strategy Papers (PRSPs)?

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The predicament of the LDCs

2. By all relevant measures the economic and social performance of the LDCs during the past three decades has been disappointing—with very few exceptions. Their declining shares in world trade and deterioration in productivity went hand in hand with an aggravation of the incidence of absolute poverty.

3. According to the Third United Nations Conference on the Least Developed Countries, over the last three and a half decades, the number of people living on less than US$1 a day went from 125.4 million to 278.8 million in 39 LDCs for which there are data. The situation has been particularly severe in the African LDCs, where the percentage of people in absolute poverty went from 55.8 per cent to 64.9 per cent, while it declined in 22 other developing countries. Similarly, the trends in human development indicators have been alarming. In over 30 LDCs for which data are available, more than one quarter of children are undernourished and the chances of a child dying before its fifth birthday are 1 in 10. On average, about 50 per cent of the female population is illiterate, and in 19 LDCs maternal mortality rate is close to 1 in every 100 live births.

4. The economic marginalization of the LDCs is eloquently shown by their weak growth performance and declining export shares. Although there are a few exceptions, average real GDP per capita growth was 0.9 per cent during the 1990s in all LDCs—excluding Bangladesh it was only 0.4 per cent. Other developing countries experienced on average 3.6 per cent per capita growth during the same period. It has also been estimated that LDCs' share in world commodity exports declined from 4.7 per cent in the early 1970s to 1 per cent in the late 1990s. In addition to the loss of market share and declining terms of trade during much of the 1990s, the LDCs experienced little or no productivity gains and, as a result, a growing gap with respect to the international technological frontier. Under these circumstances, LDCs also failed to attract much needed capital investment, accounting for only 0.5 per cent of global flows in FDI, at a time when the net Official Development Assistance was also declining in real per capita terms.

The response

5. The MDGs are a set of quantified and time-bound goals ranging from halving extreme poverty to attaining universal primary education to halting the spread of HIV/AIDS to promoting gender equality to ensuring environmental sustainability by 2015.

6. The MDGs are a collective response of the international community focused in particular on the abject poverty and humanitarian crisis of the LDCs—most of which are located in sub-Saharan Africa. Stemming from the September 2000 Millennium Declaration signed by the leaders of 189 Member States of the United Nations and reaffirmed in 2002 at the Monterrey International Conference on Financing for Development and the Johannesburg World Summit on Sustainable Development, the MDGs address dimensions that are global in scope and significance and country-specific in application.

7. The whole of the multilateral system, including the United Nations Secretariat and the multilateral agencies, is involved in this unique enterprise. This response is not just a humanitarian act. It is also a way to help trigger endogenous growth processes that will enable the LDCs to stand on their own feet and take command of their own development processes.

8. What will it take for them to do so?

First, addressing structural hurdles. The MDGs are aimed at removing the most egregious barriers to the induction of sustainable development processes.

Second, gearing up for structural change, adapted to LDCs' specific conditions.

Third, effectively mobilizing LDC societies to take advantage of scientific and technological knowledge to foster growth by strengthening the competitive capacity of the private sector and enhancing productivity so as to be able to sustain human development and social change over time.

9. In a significant way, the quest for the achievement of the MDGs requires us to turn back to the development fundamentals.

Back to the fundamentals

10. Accounting for LDCs' appalling performance over the last few decades calls for more than the conventional approaches to catching up. In particular, it entails the need to look at the case of LDCs in broad perspective, taking some distance from the usual debates on development applied to other regions. LDCs will continue to draw little or no benefit from lessons learnt about the experience of other developing countries and regions as long as its fundamental development specificities continue to be neglected.

11. In assessing the long-term economic performance of the LDC economies, measures such as (very low) physical and human capital accumulation and price distortions—with most of the reason attributed to ineffective policies and bad governance—are among the most usually resorted to. This level of explanation has captured much of the attention in the literature, including numerous papers on growth accounting,

fiscal, monetary and exchange rate management, macroeconomic incentive systems and transaction costs.

12. These explanations relate to the *proximate* determinants of growth of per capita income, namely, physical capital deepening, human capital accumulation and productivity growth. They lead to concerns relating to the determinants of investment decisions such as the investment climate and macroeconomic stability. An important feature of this approach is that it factors in both the resource endowments of the economy and the efficiency with which such endowments are deployed, thus leading to policy inferences that concern either static or dynamic comparative advantages or both—the latter normally receiving far less attention than the former.

13. Complementarily, productivity growth may also be addressed not as an accounting residual, but in terms of (at least some of) its *direct* determinants such as those relating to the microeconomic, technological and entrepreneurial behaviour. Although this approach may relate to alternative theoretical paradigms (e.g. that of evolutionary economics, as opposed to conventional theory), it can broadly be fitted within the above framework in the sense that it also accounts for *proximate* growth determinants. In particular, it focuses on the development of *man-made* comparative advantages. This strand of explanations provides a very different perspective, rich in additional insights about the role of endogenous variables. Important amongst such insights are those relating to the (in)capacity of national enterprises to compete in the domestic and international markets. These lead to policy concerns on the promotion of entrepreneurship, learning and technological diffusion.

14. One of the problems with the exclusive focus on *proximate* and *direct* determinants is that the conditions for policy replicability cannot be properly addressed because too much is taken for granted, for instance, by not specifying many initial conditions. This is especially critical since, while some of these conditions are exogenous, others change slowly over time and will impact the policy outcomes of the future.

15. Another problem is that such focus often makes *causal* implications to become blurred. This is because not only it is very hard to gauge the *relative* influence of different determinants, such as factor accumulation vis-à-vis technological change (in fact, such influences are not really independent), but also due to the influence of *other* (largely non-economic) determinants that are not captured by these approaches. This raises the possibility that causality may run, to some extent, from growth to accumulation and productivity, rather than the other way around.

16. The search for more *fundamental* explanations addresses questions such as: if differences across countries in per capita income growth in the long run are largely due to their ability to enlist innovation and technical change for productivity growth, what is it that determines differences in such an ability? And, more broadly, what is it that determines cross-country differences in developing countries' ability to succeed in technological catch-up?

17. Those relating to institutions, geography and patterns of integration into the world market are among the various explanations offered at this deeper level. These explanations have generated a lively debate in the literature but not enough effort has been devoted to take due stock of this debate from the LDCs' perspective so far.

18. An additional reason why it is important to look at the fundamentals is that they are not just about conceptual issues but they also concern the nature of the quantitative evidence required to explain success and failure in catching up. This is particularly relevant with respect to initial conditions. No analysis of LDC development problems that neglects initial conditions and structural barriers can be expected to provide either a relevant assessment of their development problems or realistic policy guidelines.

Removing structural impediments to attain MDG-compatible growth

19. Because the LDCs are unable to pull themselves out of their predicament, for which the international system is partly accountable, reaching the minimum thresholds to get out of the poverty trap entails a shared responsibility with the donor countries.

20. Such thresholds relate to standards of governance, basic health care and education, agricultural productivity and core infrastructure, among others. Failing to meet these thresholds amounts to falling into a low-level equilibrium that is unable, in and of itself, to generate the necessary dynamics to break the poverty trap, thus preventing the transition to sustained growth. This may also happen in countries that have managed to achieve reasonable rates of growth, albeit at a subnational level, giving rise to substantial localized pockets of poverty.

From MDG-compatible growth to structural change

21. Reaching minimum thresholds and, indeed, the MDGs themselves, ought not be seen as points of arrival, but as points of departure towards sustainable development—economically, socially and environmentally.

22. If, while working towards building up the conditions for LDCs to reach the MDGs, due attention is not also paid to preventing the likely potential relapses that may stem, for instance, from extremely high vulnerability to external shocks because of very high commodity dependence, an important opportunity might be lost. Certainly, both steps should go hand in hand. But can this be taken for granted? The risks involved in failing to take advantage of the major effort required to reach the minimum thresholds so that subsequent development is possible need to be explicitly addressed. Consider the role of the private sector and science and technology development.

23. Ensuring the success of efforts towards creating the basic preconditions for development rests on a wide range of ingredients needed for wealth creation. This entails, among others, establishing at least the rudiments of a technological infrastructure responsive to the needs of private enterprises, that is, the domestic provision of public goods that are required to foster technology diffusion processes that can eventually lead to catching up in productivity.

24. Institutions for the facilitation of domestic technology diffusion have played a key role in all developing countries that have succeeded in the path of industrialization. Among them, those relating to the quality system (including capacity in metrology, testing, standardization, traceability and quality management) are becoming indispensable even in countries at a very early stage of manufacturing development simply because of the stringent health, safety, environmental and other technical regulations and conformity requirements imposed by advanced industrial countries.

25. Technical education and privately run or mixed apprentice systems complement on-the-job training to support the development of skills required to promote learning processes in industry.

26. SME and gender-sensitive entrepreneurship promotion includes financial support in the form of loans with subsidized interest rates, credit and insurance-guarantees or grants aimed at stimulating particular activities, such as exports, technological learning, innovation and investment and are designed to make up for SMEs' regional or sector-specific disadvantages. SMEs can also be supported through "soft aid" such as consulting services, information, training and assistance aimed at facilitating the establishment of export consortia and local clusters. A further form of assistance is that aimed at developing suppliers' and subcontracting networks with large enterprises, including SMEs.

27. Design, project and process engineering skills and capabilities are key means of technology transfer and absorption and, as such, call for priority treatment through special fiscal and financial incentives.

28. If, among others, these ingredients that are required to embark upon a path of diversification, structural change and productivity growth are ignored, the MDGs may fail to start off sustained development processes even if they largely succeed in relieving the most eloquent indices of backwardness.

29. No country has been able to grow steadily for a substantial period of time and at the same time reduce poverty significantly, without undergoing a sustained process of structural change. In most cases, such a process entails major gains in allocative efficiency through shifts in employment from low productivity to high productivity and from primary to industrial activities.

30. The key to structural change is *not* the growth of this or that sector, but increases in economy-wide productivity. Exactly how such increases are attained depends a lot on the specific constellation of countries' natural and man-made advantages and historical trajectories, the role of foreign investment and the priority given to human development, among others.

31. As Nigerian President Olesegun Obasanjo recalled at the recent TICAD III meeting in Tokyo, NEPAD, with the assistance of UNIDO, is working on providing a comprehensive vision for building Africa's productive capacity. This is the kind of medium- to long-term supplement called for by the MDGs, which should not be understood as the ultimate solution to all LDCs' problems. But they are a necessary step to start off the endogenous process needed to tackle these problems decisively and effectively. The political energy involved in pursuing the MDGs will only bear the expected fruits if translated into nationally-owned, nationally-driven and effectively conducted development strategies that fully address the dramatic accelerations in the pace of progress called for.

32. Provisional UNIDO estimates for the forthcoming *Industrial Development Report* indicate that the modal MDG-required rate of growth is 5-6 per cent per annum during 2003-2015, with wide variations across countries. As a number of PRSPs explicitly suggest, sustaining this kind of economic growth calls for important transformations in the structure of the economies involved, including export diversification and a shift in the composition of manpower towards industrial activities, as a necessary supplement to the substantial increases in agricultural productivity that will be required. This will be necessary to prevent further increases in the growing contingents of marginalized internal migrants from the manpower to be released through the modernization of agriculture.

33. The sectoral and subsectoral dimensions are important in this respect. The poverty elasticity of growth varies across sectors, so the first reaction may be to focus on those sectors that have relatively higher poverty elasticity. However, although this may make sense in the short run, it may fail to do so in the medium and long term simply because sector elasticities have to be weighted by the respective sector-specific growth potential as well as by their indirect impact on economic activity and job creation.

34. But this in turn raises questions that need to be addressed. For instance, how to avoid that the substantial internal migrations that can be expected as a result of rapid increases in agricultural productivity end up adding to the massive pockets of jobless people in urban and suburban areas? How can the LDCs develop a comparative advantage in manufactures? What would it take for a focus on labour intensive-based industrialization to avoid falling into the fallacy of composition whereby what may be a solution for a few countries may end up being a dead-end if pursued by many countries at the same time? How far may LDCs share in the gains stemming from liberalization of trade in textiles and clothing? Does plugging into international production networks provide an alternative to the extent of export diversification otherwise entailed? Or, can natural resource industrialization offer a way out to the employment needs associated to the kind of structural change required?

35. The Global Compact addresses a number of these issues. In particular, it submits six policy clusters for escaping poverty traps which, in addition to those relating to human development, small farmers, investment in infrastructure, human rights and social equity, also include two of most direct relevance to the present discussion: namely, those relating to the environment and to industrial development policy. Let us quote the latter:

> "*Developing industrial development policies that bolster non-traditional private sector activities, with special attention to small and medium-sized enterprises. Such policies might include export processing zones, tax incentives and other initiatives to promote investment and public spending on research and development.*"

Millennium Development Compact, Millennium Project

36. These insights of the Global Compact, complemented by considerations such as those discussed further above, should help to fill gaps in the spelling out of the strategies required to achieve and sustain the MDGs.

37. Are the MDGs attainable? The answer is: they are, provided that the amount and quality of resources and interventions match the magnitude of the goals and, as importantly, that domestic conditions are laid down in such a way as to make progress in the standards of living and in the direction towards the goals sustainable over time.

38. Overall, while the recent work done by the World Bank and independently by the Zedillo Commission in preparation for the Monterrey Conference show figures of over an *additional* $50 billion a year needed to achieve the MDGs, more specific forecasts need to be made in light of the interdependencies between the MDGs and the structural change implications of sustaining their impact. A further exercise should also be undertaken to formulate a financial strategy to achieve these targets especially on a country basis as is increasingly being done in some of the PRSPs but with a much shorter time horizon.

UNIDO, industrialization and the MDGs

39. The key role for industrial development, given the extent of structural change called for by the poverty MDG, is to generate sustainable employment and higher incomes to lift people out of poverty. This also entails industry's direct and indirect contribution to the achievement of other MDGs, and non-economic measures of well-being in general.

40. While most studies emphasize the multi-dimensionality of poverty and highlight the importance of health, education and gender equality, few indicators address the two-way causality between poverty reduction and the other MDGs. It is widely accepted that, as better education and health for the poor will improve their chances of escaping poverty, at the same time higher incomes for the poor will typically enable them to have greater access to these services and make more investment in human capital for the next generations.

41. For example, higher gender inequality is found to increase poverty and reduce other welfare measures, as women appear to allocate more resources to food, healthcare and education of their children than do men, and female literacy has been found to be one of the most important determinants of the effects of growth on income poverty. Moreover, inequality in access to education, technology and employment opportunities for women reduces economic growth as it fails to make adequate use of female resources. Enhancing employment of women in key agro-industries and low-skilled manufacturing such as in textiles and apparel as well as through micro and home-based enterprises and community cooperatives helps to empower women, which in turn is found to decrease childhood malnutrition and under-5 mortality.

42. Similarly, the dire impacts of HIV, TB and malaria on labour productivity and human capital

accumulation are imposing important challenges particularly in Africa both in terms of future growth and poverty alleviation. The policy response to minimize the impacts of these challenges has been weak, except for a few successful examples, at least partially due to the lack of resources and infrastructure. In this regard, enhancing local pharmaceutical production capabilities and improving access to treatment and medical facilities can be important contributions from technical cooperation activities.

43. Finally, poverty and the state of the environment are deeply interrelated. In most LDCs where the poor are exclusively relying on the exploitation of natural resources, the sustainability of their livelihood is intrinsically dependent on the quality of their environment. Over-reliance on natural endowments and the single-tier economy exposes the already marginalized groups to volatility without adequate measures to insure against risks. Rather than being the culprit of environmental destruction, industry can provide solutions if the necessary steps are taken to insure that industrial development in LDCs, while effective in reducing poverty, is also ecologically efficient. Along these lines UNIDO works to improve the environmental performance of domestic industries by promoting the diffusion of clean technologies, better energy supply and efficiency, especially in rural areas—as well as through the implementation of the Montreal and Kyoto Protocols.

Summary of key issues to be addressed by the Forum

44. The MDGs have become the international community's universal yardstick of success in the fight against poverty. But sustained poverty reduction entails a parallel quest to develop the endogenous structural change processes that are necessary for sustainable job creation and improvements in the standards of living. Therefore, there is a two-way interaction between the MDGs and industrialization: while the former are necessary to remove structural barriers to growth, the latter is required to sustain growth in the long term.

45. The exchanges during the Industrial Development Forum will attempt to provide answers to the following key questions:

(a) Which are the fundamental reasons why the LDCs increasingly lag behind and, save for a few cases, find very hard to take advantage of successful policy experiences elsewhere?

(b) What is the role of the MDGs in helping the LDCs to gear up for structural change and industrialization?

(c) How best to factor structural change and industrialization into the MDG and Poverty Reduction Strategy Papers processes so as to sustain human development and social change over time by strengthening the competitive capacity of the private sector and enhancing economy-wide productivity growth?

46. In addressing these issues, priority attention will be paid to the key role to be played by the multilateral technical cooperation system in creating domestic capacity and fostering the international diffusion of know-how. These are indispensable preconditions to enable the LDCs to enhance productivity for social advance by developing man-made comparative advantages, diversifying exports and ensuring a more active participation in world trade and investment.

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MEDIUM-TERM PROGRAMME FRAMEWORK, 2004-2007

Proposals of the Director-General

Provides a comprehensive proposal for proposed activities in the forthcoming medium-term programme framework period, 2004-2007, as foreseen in document GC.10/5, para. 4.

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For reasons of economy, this document has been printed in a limited number. Delegates are kindly requested to bring their copies of documents to meetings.

Introduction

1. In accordance with established practice and as anticipated in document GC.10/5, paragraph 4, the present document provides a comprehensive proposal for the medium-term programme framework (MTPF), 2004-2007. To place this proposal in its correct setting, this note begins with a few apposite references to the prevailing policy context and UNIDO's experience in programme implementation during the past five years. It then outlines UNIDO's response in the form of the recently-formulated corporate strategy and discusses the areas of emphasis for UNIDO's activities in 2004-2007 arising therefrom. Finally, it concludes with a brief review of other organizational and institutional considerations for the implementation of the MTPF for 2004-2007.

I. DEVELOPMENTS DETERMINING THE MTPF, 2004-2007

2. The strategy and content of the medium-term programme framework, 2004-2007, have been primarily determined by the policy guidelines and prescriptions given by the Member States from time to time. Additionally, the international development goals set by the international community through conferences, declarations and international agreements, especially environmental agreements, the global economic, industrial and technological trends and finally the experience gathered from the implementation of the development programmes and projects by the organizations have also shaped MTPF 2004-2007.

3. To begin with, there is the *Business Plan for the Future Role and Functions of UNIDO*, endorsed by the General Conference in resolution GC.7/Res.1 on 4 December 1997. The Business Plan required UNIDO to undertake both technical cooperation and global forum activities for strengthening industrial capacities in the developing countries and transition economies and for promoting sustainable industrial development. While maintaining its universal character, the Organization is to focus its activities in the least developed countries (LDCs), in particular in Africa, and on agro- and small industries. The Business Plan also emphasized that UNIDO should provide its support primarily in comprehensive packages of integrated services and should further strengthen its capacity in this regard through interdisciplinary team-building.

4. The assiduous implementation of the programmatic components of the Business Plan and the associated administrative reforms during the past six years have resulted in significant improvements in UNIDO's performance, which have been widely acknowledged by the Member States and independent observers. Such recognition has been expressed not only in various statements issued in successive meetings of the governing bodies, but also in a number of reports on the Organization prepared in recent years. Thus, the report of the External Auditor presented to the eighteenth session of the Programme and Budget Committee in September 2002 stressed that UNIDO had achieved relevance, financial stability, improved technical cooperation delivery and quality of services offered through more focused activities (PBC.18/3-IDB.26/2). Similarly, the Institutional Strategy Paper *Working in Partnership with the United Nations Industrial Development Organization 2001-2005* prepared by the United Kingdom Department for International Development in June 2001, stated that "UNIDO has made significant changes to modernize management practices. UNIDO's progress with reform sets a good example for other UN agencies".

5. While reiterating the continuing validity of the Business Plan, the Member States have recognized the need for UNIDO to adapt its functions and priorities and orient its activities to the new realities and requirements of the changing global economic environment. It was in this spirit that the Industrial Development Board at its twenty-sixth session adopted the *Strategic guidelines—Towards improved UNIDO programme delivery* in decision IDB.26/Dec.7 on 21 November 2002. This decision requested the Director-General to take the strategic guidelines fully into account when developing his proposals for the MTPF for 2004-2007.

6. UNIDO is also required to give particular attention to major United Nations development initiatives when formulating its future activities in order to ensure that the Organization makes the most effective contribution to the international development goals and those of the beneficiary States. In this context the Millennium Development Goals (MDGs), which emerged out of the United Nations Millennium Summit of world leaders held in September 2000, are of particular importance. In respect of UNIDO's activities, the goals relating to eradication of poverty, ensuring environmental sustainability, developing global partnership for development and promoting gender equality and empowering women are very relevant. Other major initiatives, which must be factored into UNIDO's medium-term development programme are the Plan of Implementation adopted by the World Summit on Sustainable Development (WSSD), held in September 2002 at Johannesburg; the priorities established by the New Partnership for Africa's Development (NEPAD); the findings and recommendations of the final report of the Commission on Human Security (May 2003); and the national development objectives articulated in the United Nations Development Assistance Framework (UNDAF) prepared for various countries.

7. UNIDO's activities in 2004-2007 will also continue to be guided by a number of multilateral environmental agreements, which impinge on the industrial sector and in the implementation of which UNIDO has been assigned a specific role. These agreements include: The Montreal Protocol on Substances that Deplete the Ozone Layer; the Kyoto Protocol to the United Nations Framework Convention on Climate Change; the Cartagena Protocol on Biosafety; and the Stockholm Convention on Persistent Organic Pollutants (POPs). In addition, UNIDO undertakes various activities funded by the Global Environment Facility (GEF) in the six areas addressed by GEF, which include not only the ozone layer, climate change and POPs covered by the agreements listed above, but also biodiversity and international waters.

8. In addition to the Business Plan, strategic guidelines, and the mandates arising from various international conferences and agreements, the formulation of the MTPF for 2004-2007 has also been guided by specific decisions taken by UNIDO's governing bodies. Decision IDB.27/Dec.9 has been particularly relevant in this context, and calls on UNIDO to take into account the Programme of Action for the Least Developed Countries for the Decade 2001-2010 adopted by the Third United Nations Conference on the Least Developed Countries, held in Brussels from 14 to 20 May 2001, in its programme activities.

9. The preparation of the MTPF for 2004-2007 has also been informed by an appreciation of global economic, industrial and technological trends, and their implications for the support services provided by UNIDO in developing countries and countries with economies in transition. In particular, the ongoing process of globalization will pose continuing challenges for UNIDO to assist these countries to take full advantage of the opportunities offered by the potential access to global markets. Similarly, UNIDO will also be called upon to play an increasingly active role in helping these countries to acquire, adopt and assimilate the rapidly advancing industrial technologies, including such "new" technologies as information and communications technologies, biotechnology and nanotechnology, which will be gaining increasing importance in the coming years.

10. In formulating the MTPF for 2004-2007, UNIDO has also taken into account its own experience of delivering its technical cooperation services during the past five years through such mechanisms as integrated programmes and country service frameworks, individual projects, and thematic initiatives. In almost all cases it has been found that activities leading to an increase in productivity have been the most sustainable. This finding has also been reinforced by broader international experience.

II. PROGRAMME FOR THE MEDIUM TERM, 2004-2007: THE UNIDO RESPONSE

A. The UNIDO corporate strategy

11. UNIDO has responded to the mandates given by its Member States, both directly through its governing bodies and indirectly through the goals set by international conferences and agreements, and to the needs arising from international economic, industrial and technological developments, by formulating a comprehensive and coherent corporate strategy, as reproduced in the annex to the present document. This strategy, which was circulated to Member States at the twenty-seventh session of the Industrial Development Board in August 2003, reflects the pragmatic approach towards development adopted by UNIDO on the basis of the development experience of the past 50 years, and transcends economic or political orthodoxy.

12. The UNIDO corporate strategy rests on the premise, derived from empirical research and experience, that productivity enhancement, driven by improved skills, increased knowledge and upgraded technology, plays a crucial role in promoting faster growth. While acknowledging that productivity enhancement is an economy-wide concept, which will require adjustments and improvements not only in individual economic sectors but also in such areas as governance, infrastructure and social development, UNIDO is nevertheless convinced that industry can make an important contribution to the achievement of this increase in productivity. UNIDO therefore proposes a new approach for the Organization's activities and interventions, which focuses on productivity growth as the central theme for these interventions, both to optimize their effectiveness and provide the needed strategic fit between them. This new approach is aimed at promoting sustainable industrial development by reinforcing the multiple links between entrepreneurship, technology, productivity enhancement and growth, and at facilitating a better conceptual and operational design of the Organization's support services. In adopting this approach, UNIDO intends to achieve a sharper focus and enhanced effectiveness in the deployment of the experience and expertise of its staff.

13. It may be noted in this connection that UNIDO has developed a methodology for measuring and tracking changes in total factor productivity in various countries and regions. This methodology, which has gained the recognition of outstanding economic journals, allows UNIDO to compare practices in selected countries and regions with best practice productivity-enhancing measures in terms of skills and technology development, and to assist in replicating the lessons learned from these experiences in other countries.

14. Based on the underlying strategy of productivity enhancement for social advance, UNIDO will seek, in the coming years, to attain an effective integration between the conceptualization of the current policy challenges facing developing countries and transition economies, and its approach to technical cooperation on the ground. In this sense, an effort will be made to achieve a much greater synergy between the global forum and technical cooperation functions than in the past, with the global forum function serving to identify topical areas of need for UNIDO's technical cooperation in developing countries and countries with economies in transition, and the technical cooperation function helping both to provide inputs for the global forum function and to identify gaps in UNIDO's global forum activities. Consequently, the global forum and technical cooperation activities will increasingly reinforce each other in the quest for relevance, effectiveness and impact.

15. With regard to the **global forum function**, the corporate strategy notes that in its capacity as the specialized agency of the United Nations mandated to promote industrial development, UNIDO must generate and disseminate knowledge about industrial development processes and associated issues, and initiate/conduct debates on industrial development and related matters in order to influence the industrial development agenda in this area. The global forum function also involves benchmarking industrial performance and identifying international best practices for dissemination; organizing the exchange of sector- and theme-specific information and views of experts and decision makers from different countries and regions; and disseminating knowledge on current and emerging trends, challenges and opportunities to inform policy-making. In doing so, UNIDO's global forum activities draw upon in-house and collaborative research as well as the rich pool of experiences generated by its technical cooperation programmes.

16. With regard to UNIDO's **technical cooperation activities**, the corporate strategy provides for the Organization's interventions to be clustered around two key areas of comparative advantage:

- Technology diffusion;
- Capacity-building for market access and development.

While such a separation of UNIDO services is analytically convenient, it must be borne in mind that there are important synergies between the activities and respective outcomes in these two areas.

17. In these two areas, focus on LDCs and the poor will continue to be stressed and sharpened, seeking tangible contributions to the fight for poverty reduction and social and economic progress. Environmental sustainability of industrial development will also be an essential ingredient through the emphasis on clean technologies and cleaner production practices. By this approach UNIDO will seek to use industrial development as a useful mechanism for contributing to the achievement of MDGs.

B. Operationalizing the corporate strategy

18. In order to pave the way for a successful implementation of the corporate strategy during the period 2004-2007, UNIDO has recently undertaken a comprehensive analysis of the further adjustments to its services and delivery mechanisms required to improve the performance and impact of its activities. This analysis has addressed three issues in particular:

- An improvement in the linkages between UNIDO's global forum and technical cooperation activities in order to enhance the Organization's participation in, and contributions to, the international development debate, and to determine critical areas for its technical cooperation services;
- A refinement of the technical support services offered by UNIDO to align them more effectively with the global development priorities;
- Increased redeployment of authority and responsibilities for technical cooperation activities to the field in order to enhance the field-level impact of these activities.

19. The examination of the linkages between UNIDO's global forum and technical cooperation activities has resulted in a proposal to establish a core research agenda covering five interrelated topics:

- How best to foster and monitor the contribution of productivity growth to economic and social advancement?
- What is the impact of the new global setting in such areas as trade, investment and international regulations on the scope of industrial development policies and on the effective contribution of industry to economy-wide productivity growth and to the achievement of the MDGs?
- What are the key barriers to speeding up the transfer, diffusion and absorption of technology and how best to remove them with a view to enhancing productivity growth in developing countries?
- How to maximize the developmental impact of entrepreneurship and SMEs?
- Which are the most efficacious policy tools and forms of industrial governance to promote and

support industrial development in the new global setting?

This core research programme will be supplemented by other global forum activities as necessary to complement UNIDO's technical cooperation activities.

20. The reassessment of UNIDO's technical support services has resulted in a thorough review of the Organization's eight service modules to make them more consistent with the global development priorities, and the MDGs in particular. Their modus operandi has also been adjusted to align their outputs more closely to the central theme of productivity enhancement enunciated in the corporate strategy, and in this way to increase the synergies and strategic fit between them. These revised service modules, which will remain the basic building blocks of UNIDO's technical cooperation activities, are presented in a separate conference room paper, along with an outline of the priority services for the period 2004-2007.

21. The assessment of the prospects for an increased redeployment of authority for managing and implementing technical cooperation projects to the field has resulted in several new proposals being articulated for a greater decentralization of UNIDO's activities. These are presented in greater detail in a separate document. It may be mentioned that the emphasis on decentralization is clearly in line with the corporate strategy's goal of productivity enhancement for social advance. Recognizing that UNIDO's support for productivity increases through the promotion of industrial development in the relatively poor areas of any given country is the most effective and sustainable means of alleviating poverty, the decentralization approach seeks to shift UNIDO resources to the field where they are needed most.

C. Areas of emphasis for the medium term, 2004-2007

22. As indicated above, UNIDO has responded to the demands placed upon its services by its Member States and the evolving international development agenda by formulating a comprehensive corporate strategy focused on the central theme of productivity enhancement for growth and social advance. In addition, UNIDO has refined its service modules in accordance with these requirements to ensure that they meet the full needs of the Member States, in particular within the framework of the MDGs. While the full range of UNIDO services to be provided to developing countries and transition economies in the period 2004-2007 is given in these service modules, particular emphasis will be placed on interventions that contribute to the strengthening of productive capacities and enhancement of productivity growth, on the basis of technology upgrading, learning and technological progress. This will ensure competitiveness and long-term and sustainable economic growth, which alone can make a decisive dent on poverty in these countries. The areas of emphasis in the medium term 2004-2007 in the Organization's technical assistance and global forum activities that emerge from this approach are outlined below.

Investment promotion

23. One of the key drivers of productivity is investment in machinery and equipment, which carries with it new technologies and new ideas that contribute to higher productivity and growth. Technological change often manifests itself in new capital goods, so that capital accumulation becomes the vehicle of technological progress and productivity enhancement. In this context, promotion of investment, both domestic and foreign, is of crucial importance. Foreign direct investment (FDI) in particular, is regarded as an important driver of industrial performance as it is expected to directly improve the productivity growth of industries by infusing new capital, technologies and managerial know-how and by improving the average skills and efficiency levels of industry.

24. UNIDO will assist the developing countries and transition economies in developing a positive investment climate by advising them on international best practices and experiences in industrial development investment promotion and effective industrial policies and strategies. In designing its support services UNIDO's objective will be to help the beneficiary countries tackle both government and market failures in an effective manner. For example, the measures to tackle government-imposed imperfections could include policy advice to ease arbitrary regulations and licensing requirements, proper functioning of the labour market and appropriate measures for facilitating the exit of non-viable firms. In respect of market failures, support services will relate to informational constraints, such as the provision of information on modern technologies and skills development, as well as best practices in technology upgrading and adaptation. The Investment and Technology Promotion Office (ITPO) network will be utilized effectively to promote FDI through the promotion of business and marketing alliances between the enterprises in the developing countries and those in the advanced industrial economies, including multi-national corporations.

Technology transfer, diffusion and management

25. Growing productivity is the engine of development and productivity, in turn, is primarily driven by technological progress, upgrading and diffusion. This area of emphasis is, therefore, at the core of UNIDO's corporate strategy. Technological efforts—organization, management and upgrading of technology—are critical to the industrialization of the

developing countries and transition economies. However, the distribution of the sources and the application of technological knowledge show a highly asymmetric pattern with the industrialized countries producing the lion's share of technology and scientific innovation in terms of patents and royalties from licensing. As shown in the UNIDO *Industrial Development Report 2002/2003*, the developing countries in general and the least developed countries in particular lag far behind in contributing to the global stock of technological knowledge. This poses the key challenge for development in terms of technology transfer, adoption, assimilation, adaptation and management and the associated investment needs, including investment on the provision of public goods to overcome market failures in technology. UNIDO will seek to address this challenge by providing thematic and sectoral support services to strengthen the technological base of the industrial capacities of these countries. Special attention will be paid to promoting improved sector-specific technologies in the agro-industrial sector, since agriculture provides the mainstay of many developing countries, especially in LDCs, and agro-processing techniques provide the most fundamental means for enhancing productivity in these countries. The subsectors covered will include food processing, textiles, wood, leather and agro-machinery. Adoption of modern technologies will assist the developing countries, in particular LDCs, in diversifying their production structure in order to achieve sustainable economic development.

26. The challenge posed by the urban-industrial model of development can be transformed into an opportunity for sustainable development by integrating environment as a strategic element in the processes of production, new investment and technical change. Here technology and engineering can play a critical role in reducing the environmental impacts of production; and across a wide variety of industrial sectors newer, cleaner technologies are available as alternatives to older and dirtier technologies. These latest technologies and processes tend to be more efficient in the use of energy and materials and produce less pollution and waste. Therefore, within the overall framework of supporting technology transfer and management, UNIDO will give particular emphasis on the selection and promotion of environmentally sustainable modern and clean technologies. More generally, the Organization will continue to develop the technical cooperation services offered through its worldwide network of National Cleaner Production Centres (NCPCs) and National Cleaner Production Programmes (NCPPs).

27. An important aspect of technology upgrading for environmental sustainability relates to the application of energy efficiency measures and tools in industry. Energy is a key issue on the international development agenda, with serious implications for productivity improvement, climate change and poverty alleviation. Accessibility to reliable and affordable energy is very unevenly distributed, both between countries and within countries. Many developing countries—in particular LDCs—and countries with economies in transition face the urgent need to provide reliable and affordable energy services.

28. However, the production/generation, distribution and use of energy are sources of global pollution and waste and substantially increase the atmospheric concentration of greenhouse gases. It is, therefore, necessary to increase energy efficiency to control greenhouse gas emission and protect the climate. In addition, by producing more output with the same energy input, energy efficiency promotes economic efficiency and productivity improvement as well as competitiveness of energy consumption enterprises. In the medium term, UNIDO's energy programme will, therefore, focus on the promotion of technologies, processes and tools that are efficient in terms of energy consumption and also on reducing emission of greenhouse gases from fossil fuels.

29. Information and communication technologies (ICTs) and biotechnology are among the three technological revolutions (the third being fuel-cell technology) currently under way, which are bound to have a powerful effect on economic development in the years to come. UNIDO will take a number of initiatives during 2004-2007 in these two fields. While in the case of ICTs these will relate to their application to industrial processes and decision support systems, in the field of biotechnology, UNIDO will direct its activities towards applications in the food processing and agro-industries, in particular in the areas relating to the regulation, access to proprietary technology and support to strategic research.

Trade facilitation and market access

30. Globalization and the associated liberalization of multilateral trade regimes hardly guarantee that much of the developing world will be able to benefit from the global markets and achieve rapid economic growth. Only a few developing countries have succeeded in penetrating such markets, while a disturbingly large number of others, especially LDCs, have not. The main bottlenecks have been the lack of the necessary productive and export capabilities and the in-built cumulative deficit in the capacity of the developing countries to conform to developed country market requirements. These requirements take the form of a myriad of technical conditions and barriers imposed through mandatory domestic regulations, quality, health, safety and environmental requirements and, to some extent, international standards.

31. Presently many developing countries lack the capacity to meet conformity requirements. The challenge faced by these countries is to reform and upgrade their standards-setting regime, establish efficient testing, certification and laboratory accreditation mechanisms to conform to the World Trade Organization (WTO) agreements on technical barriers to trade (TBTs) and sanitary and phyto-sanitary (SPS) measures, and to defend themselves in standards-setting bodies. In brief, they need technology diffusion and capacity-building for market access—the two key areas of comparative advantage of UNIDO that also underpin productivity growth, which constitutes the essence of its corporate strategy. Through targeted interventions UNIDO will assist the developing countries in capacity-building in the above-mentioned areas; and it will also seek to enhance the competitiveness of developing country enterprises through restructuring, upgrading, quality and productivity improvements and through links to global supply chain networks. This role has recently been highlighted in the memorandum of understanding signed by UNIDO and WTO in September 2003.

Private sector enterprise development

32. A vibrant private sector—with enterprises making investments, creating jobs and improving productivity—promotes growth and creates opportunities for poor people. In developing countries and transition economies it is the local firms—small and medium enterprises (SMEs)—which are responsible for most economic activity that has interface with productivity enhancement and poverty alleviation. This is particularly the case in the field of agriculture-based economies in Africa and LDCs, where most of the poor people are living and for which the development of agro-based SMEs would contribute to poverty alleviation, while at the same time enhancing productivity. UNIDO will continue to provide support for SME development through a series of technical assistance activities in this area of emphasis.

33. There are two distinct categories of small enterprises: modern small and medium enterprises and micro enterprises (cottage and household enterprises). Their problems are different, requiring a differentiated approach. For modern small enterprises the major problem is isolation—the fact that they are operating alone in a competitive environment. This is where "clustering" and "networking" can help and both types of groupings have competitive advantage. "Collective efficiency" gains can be realized through local external economies as well as joint action with other firms and industry associations. UNIDO has been promoting cluster development projects in Asia, Africa and Latin America over the past six years.

34. Modern SMEs in developing countries and transition economies can also benefit from being linked to the supply networks of large firms—national, regional and international. UNIDO's programmes of promoting multi-sector partnerships (as in the automotive sector in India) and of subcontracting exchange are successful steps in this direction. Apart from providing marketing outlets, these programmes also promote technology upgrading and diffusion. UNIDO will continue these efforts, emphasizing the integration of modern SMEs into national, regional and global supply networks and value chains as conduits for market access and technological upgrading.

35. The problem of micro-enterprises is linked to the twin issues of globalization and poverty reduction. Although international development efforts are directed at bringing developing countries, particularly LDCs, into the mainstream of the globalizing world, it will take years, even decades, of sustained efforts to achieve that goal. In the meantime, there will be poor people in all these societies whose economic and social conditions should not be allowed to deteriorate. In this scenario, special measures to help micro-enterprises and small businesses assume importance. Poor people, especially women, typically engage in these activities, most of which are in the informal sector. They face a large number of barriers: limited access to technology and credit, lack of property rights, low skill levels, poor infrastructure and inappropriate policies and regulations. UNIDO's support measures will address these problems and technical cooperation will cover areas such as transfer of simple technology and assistance in the establishment of low-cost manufacturing facilities using basic tools, training in skills improvement, microfinance and credit guarantee, and policy measures to tackle the problems of inappropriate regulations and lack of property rights. From a sectoral focus, agro-processing with simple technology can be an appropriate way to utilize local resources, including agricultural waste for the manufacture of low-cost products for low-income local markets. In respect of rural and remote areas, UNIDO will strive to provide support services for promoting access to electricity to the poor for productive use from energy derived from renewable resources like sun, wind, biomass, geothermal and hydropower.

Multilateral environmental agreements

36. The degradation of the national environment poses one of the greatest challenges to modern societies. Major problems include ozone depletion, global warming, water and air pollution, releases of POPs and land degradation including coastal erosion. The concern regarding these issues have brought the realization that if development (including industrial development) is to

be sustainable, the environment needs to be protected and environmental concerns must be systematically incorporated into the conventional paradigms of economic development.

37. The international community has responded to these challenges by entering into a number of multilateral environmental agreements in recent years. Since improvements in the environmental sustainability of industrial production processes are indispensable preconditions for the fulfilment of these agreements, UNIDO can make a major contribution towards their successful implementation. In doing so, UNIDO can help to meet several important Millennium Development Goals and also help to enhance the industrial productivity of its Member States in accordance with the core objective of its corporate strategy.

38. The services offered by UNIDO in support of the multilateral environmental agreements comprise the following:

- Elimination of ozone depleting substances (ODS) within the framework of the Montreal Protocol;
- Phase-out of POPs and persistent toxic substances (PTS) under the Stockholm Convention on Persistent Organic Pollutants and with the assistance of GEF;
- Management and sustainable use of integrated transboundary river basins, wetlands, coastal zones and large marine ecosystems under the auspices of GEF;
- Development of institutional capacities and methodologies for the Clean Development Mechanism (CDM) and joint implementation under the Kyoto Protocol.

III. OTHER CONSIDERATIONS

39. UNIDO will continue to use two principal vehicles to deliver its technical cooperation services: integrated programmes and country service frameworks, where a selection of services offered in several service modules is provided in a coherent and mutually reinforcing manner; and individual projects, comprising services offered in only one or two service modules. Additionally, the Organization will also offer its services through the medium of its thematic initiatives, where there is a need to overcome particular industrial development challenges in a holistic manner. Several initiatives of this kind—covering the topics of market access facilitation, rural energy for productive use and post-crisis rehabilitation—have already been introduced. Others may be added as required. In all these cases, increased efforts will be made to enhance their impact and coverage. A detailed conference room paper on the implementation of UNIDO's integrated programmes and country service frameworks, updating the information presented to the twenty-seventh session of the Board, will be issued separately.

40. The resource requirements for the implementation of the first two years of the proposed MTP, 2004-2007, are detailed in the programme and budgets for 2004-2005, submitted to the nineteenth session of the Programme and Budget Committee in April 2003 and adopted for submission to the General Conference, with adjustments, by the twenty-seventh session of the Industrial Development Board, in August 2003 (IDB.27/Dec.6). The Organization will also undertake proactive funds mobilization activities in order to raise resources for its technical cooperation services.

41. The organizational arrangements at Headquarters have been streamlined with a view to enhancing UNIDO's capacity to deliver its services effectively. Measures are also being taken to delegate increased authority and responsibility to the field for implementation of UNIDO's technical cooperation activities. The financial and operational management of the Organization is being strengthened through the operation of the office of the Comptroller General, who has the responsibility for the functions of internal oversight, programme/project evaluation, programme policy monitoring, financial control, information and communication management. This arrangement is expected to ensure, in a coordinated manner, optimal use of the resources available to the Organization.

IV. ACTION REQUIRED OF THE CONFERENCE

42. The Conference may wish to consider the information provided in the present document and provide appropriate guidance.

Annex

DEVELOPING INDUSTRY: PRODUCTIVITY ENHANCEMENT FOR SOCIAL ADVANCE

UNIDO's Corporate Strategy

Introduction

1. In their search for enhanced relevance, effectiveness, efficiency and impact, the specialized agencies of the United Nations system, including UNIDO, have to come to terms with the fact that the field of economic development has been in turmoil.

2. This is partly due to the complexities arising from the ongoing process of globalization. In addition, there has been a wide range of unsettled issues, polarized opinions and nuances relating to the development agenda and the development experiences of developing countries and countries with economies in transition over the past fifty years. These are the reasons why not much can be taken for granted today in any discussion of the roles and corporate strategies of multilateral organizations, even where a clearly defined mandate exists.

3. In this document, therefore, an attempt has been made to review a number of relevant conceptual and practical issues of economic development in an evolutionary perspective. Against this backdrop, the paper seeks to define, in a focused manner, the strategy and approach that UNIDO should adopt to fulfil its mandate and mission.

4. This document is intended as a conceptual complement to the decisions taken by the governing bodies of UNIDO in recent years, including the Business Plan, the medium-term programme framework for 2002-2005, and in particular the *Strategic guidelines—Towards improved UNIDO programme delivery* adopted by the Industrial Development Board at its twenty-sixth session, held in November 2002. The purpose is to assist in the further focusing of UNIDO's specialized competences and services in fulfilment of its mandate of promoting industrial development and growth in developing countries and countries with transition economies.

5. This document is organized in four parts. The first part discusses the overall context for industrial development and the baseline scenario as specified by five key trends, namely productivity and income distribution, volatility, demography, the environment and trade. The second part discusses the evolution of development thinking since the 1940s, as well as the current development agenda and recent development experience, and then tries to outline the contours of a pragmatic development approach. It emphasizes the critical role of productivity growth in bringing about sustainable economic progress. The third part brings the argument home and establishes the correspondence between the requirements of sustainable industrial development and poverty alleviation on the one hand, and the role of UNIDO as a provider of solutions on the other. In the process, an attempt has been made to sharpen or refine the Organization's corporate strategy based on the guiding principle of productivity enhancement and then to outline the services that the Organization could provide in accordance with its refined strategy. The final part offers concluding observations.

I. DEVELOPMENT EXPERIENCE IN PERSPECTIVE—DEVELOPING COUNTRIES IN WORLD INDUSTRY

A. Overview of structural developments

6. In contrast to the expectations generated by the conventional models of economic growth, only a few developing countries have been able to narrow down their economic distance from the advanced industrialized nations over the six decades following World War II. In addition, the growth experience of the developing countries has exhibited a tremendous variety, both geographically and temporally.

7. Real per capita income in the developing world grew at an average rate of 2.3 per cent per annum during the four decades between 1960 and 2000. This is a respectable growth rate. However, since the rich countries themselves grew at a rate of 2.7 per cent during this period, few developing countries managed to close the economic gap between them and the advanced nations. The countries of East and South East Asia, however, constitute the sole exception. Excluding China, this region experienced per capita gross domestic product (GDP) growth of 4.4 per cent over 1960-2000. Despite the Asian financial crisis of 1997-1998, countries such as the Republic of Korea, Malaysia and Thailand ended the twentieth century with productivity levels which were nearer to those enjoyed in the developed countries.

8. In other parts of the world, the pattern of economic performance has varied greatly across different time periods. China has shown a growth rate of 8 per cent per annum since the late 1970s. India has roughly doubled its growth rate—the annual real GDP

growth rate went up from 3.7 per cent in 1950-1980 to 6.2 per cent in 1990-2000, the corresponding annual real per capita GDP growth rates being 1.5 per cent and 4.4 per cent respectively. Latin America and sub-Saharan Africa both experienced robust economic growth prior to the late 1970s, and early 1980s—2.9 per cent and 2.3 per cent respectively—but they lost ground subsequently. Latin America's growth rate collapsed in the 1980s and has remained weak despite some recovery in the 1990s. Africa's economic decline, which began in the second half of the 1970s, continued throughout much of the 1990s, and has been aggravated by the incidence of HIV/AIDS and ethnic conflicts.

9. So far as industrial development is concerned, in 1960 the share of the developing countries in the world manufacturing value added (MVA) was 9 per cent (excluding China); by 1985 it had risen to 19.2 per cent, by 1998, to 21.7 per cent and by 2000 to 24 per cent (all these including China). However, the data show an increasing divergence of performance within the developing world. For example, during the period 1985-1998 the ratio of per capita MVA in the developing countries relative to that of the least developed countries (LDCs) moved from 5:1 to 9:1. From a regional perspective, the share of East Asia in MVA of the developing world increased during the same period from 43 to 53 per cent at the expense of the rest of the developing countries, except North Africa and the Middle East. In particular, the share of sub-Saharan Africa decreased from 3 per cent in 1985 to barely 1 per cent in 1998.

10. Export statistics convey a better picture in overall terms, although it is worse for LDCs. The value of per capita manufactured exports from the industrial countries declined from 22 times that of the developing countries in 1985 to 15 times in 1998. However, at the same time, the gap in per capita manufactured exports from the industrial countries vis-à-vis those from the LDCs widened from 192:1 to 212:1, and a similar trend is evident within the developing world itself, where the gap increased from 9:1 to 14:1. In fact, the share of sub-Saharan Africa in per capita manufactured exports dropped by half during the period. Similarly, the same acute regional imbalances within the developing world shown by MVA data are also visible with respect to export data: in 1998, East Asian per capita manufactured exports, excluding China, were 84 times those of sub-Saharan Africa, excluding South Africa, 37 times those of South Asia and three times those of Latin America and the Caribbean.

B. Key trends

11. There have also been a number of key trends affecting the prospects of the world economy, which have a significant impact on, and implications for, economic development in the developing countries. These are summarized below.

Productivity and income distribution

12. The global economy suffers from a severe handicap when it comes to reconciling efficiency with equity. Twenty-three of the 50 countries that in 1990 were at the bottom of the income per capita rankings registered a per capita income that was even lower in 1999. The other 27 countries of that group barely managed to offset population growth. At this rate, they could aspire to reach the current per capita income of Greece (currently one of the poorest of the 15 European Union countries) in around 80 years.

13. In addition, over the past 30 years, the LDCs, particularly those in Africa, have suffered a substantial fall not just in their share of world trade but also in their relative labour productivity, as measured by MVA per capita. Whereas the advanced industrial countries have continued their mutual convergence, the opposite is observed between them and the overwhelming majority of the developing countries.

Volatility

14. The quick succession of financial crises since the early 1990s, from that of Mexico to those of East Asia, Russian Federation, Brazil and the MERCOSUR countries, entailed a high degree of volatility, with sharp falls in real output every 20 months or so on average and with varying degrees of contagion. These swings with a modal length of two to four years entail irreparable loss of wealth and significant retreats in social progress in the affected countries.

15. Based on a sample of 31 developing countries, the International Monetary Fund (IMF) found that it typically took almost three years for output growth to return to previous trends after the outbreak of a financial crisis, and that the cumulative output loss averaged 12 per cent. In addition, these events have long-lasting repercussions on the domestic economy since they entail, in addition to declines in economic activity, a disruption in the flow of savings to their most productive uses and of the incentive system as a whole, as well as severe constraints in the conduct of domestic monetary and financial policy.

16. The international financial system lacks an early warning system to help prevent these kinds of occurrences, which weigh heavily on the economic and industrial performance of the developing countries.

Demography

17. The rich industrialized countries have been ageing whereas the developing countries are experiencing rapid increases in the relative number of children and youths. Without migration, the population of the rich countries would start declining and by 2050

it is estimated to be 126 millions less than what it is today (2003), with two older persons for every child. Meanwhile the labour supply in the developing countries will have grown by some 700 million by 2010 while their share of world youth will soon reach 90 per cent. There is just no alternative to job creation in the developing world. These demographic trends and the fight against poverty demand a proactive approach to support the development of micro-, small- and medium-sized enterprises, and of innovative entrepreneurs.

Environment

18. At the outset of the industrial revolution labour used to be relatively scarce and the stock of natural capital relatively abundant. After two centuries of dramatic rises in labour productivity, intensive use of natural resources at their extraction rather than replacement cost, and over-reliance on the ability of the natural environment to absorb the wastes generated by economic activity, natural capital has become relatively scarce, compared to labour availability.

19. Rich countries tend to see overexploitation of the ecosystem that ensures life on the planet (e.g. deforestation, soil erosion and climate change due to the exhaustion of the capacity of the natural system to recycle carbon dioxide) as a problem that needs to be addressed sooner rather than later. Over the last half century the world has lost a fourth of its topsoil and a third of its forest cover. Freshwater ecosystems are being lost at the rate of 6 per cent a year and marine ecosystems by 4 per cent a year.

20. Environmental degradation is as much a problem in the developing countries as it is in the industrialized nations. In fact, the problem may even be starker there, considering that poverty itself is a great environmental hazard. Industrialization, urbanization, rapid population growth and poverty along with de facto "grow now clean up later" environmental strategies in many developing countries are putting tremendous pressure on the physical environment, natural resources, forests and biodiversity, air and water quality and freshwater and marine ecosystems.

21. Increasingly, there is a realization, even in the developing countries, that the environment needs to be protected and environmental concerns must be systematically incorporated into the conventional paradigms of economic development, if development is to be sustainable. The issue of productivity of the society's use of natural resources, that is, the rate of natural resource input per unit of output required by current technologies, also assumes importance. This involves full accounting for the value of ecosystem services, with a view to deciding on the economic rationale for substituting natural capital with man-made capital or specific forms of natural capital for one another. Issues of natural resource productivity and valuation of natural assets are as important to the developing countries as they are to the advanced industrial nations if they are to have consistent productivity-led development policies over time. This creates important challenges for the development of clean technologies and improved environmental management systems, as also for innovation and technology diffusion.

Trade

22. The expectations raised by the Doha Round of trade negotiations have quickly receded owing to renewed protectionism and regulatory crises in the industrial countries, the fragility of the current recovery of the world economy and various other risk factors.

23. Sensitive issues remain pending, particularly those relating to agricultural protection, non-tariff restrictions to developing country exports of labour-intensive manufactures and intellectual property rights, among others.

24. The industrial countries have taken positive steps, such as the United States African Growth and Opportunity Act (AGOA) and the European Everything But Arms' (EBA) initiative. But welcome as these measures are, their operation is subject to a number of question marks, not least relating to the ability of the LDCs to take advantage of them, for which they require a flexible supply response capacity which cannot be taken for granted at all. In fact, important inflows of capital and know-how, as well as the establishment of a basic technological and quality infrastructure, are some of the unavoidable pre-requisites for these countries to extract effective advantage from emerging trade opportunities.

II. The Development Agenda

A. Growth theories and the evolution of development thought

25. Thinking on industrial and economic development has gone through fundamental changes over the past few years. While growth theories, often based on simplifying assumptions and log-linear growth models, seem to provide simple explanations of the process of development, the actual development practices have been much more complex responding to the forces of a highly multi-faceted and dynamic process that involves shifting interactions between economic, social and cultural conditions, as well as policies and institutions over time.

26. In the first wave of theorizing about economic development from the 1940s, to the early 1960s, all

emphasis was placed on the accumulation of physical capital as the key to development (as reflected in the Harrod Domar, Lewis and two-gap models). The theories proposed by Robert Solow (1957) further helped to clarify the role of the accumulation of physical capital and emphasized the importance of (exogenously supplied) technological progress, as the ultimate driving force behind economic growth. The "new growth" theories developed by Paul Romer and others in the 1980s to 1990s, while supplementing Solow's model noted that technological change is endogenous, and that education and ideas produce positive externalities and increasing returns. In the endogenous growth literature, knowledge is treated as a non-rival good and technological progress is seen to be determined by the accumulation of knowledge by forward-looking, profit-maximizing agents.

27. Development policy and practices, on the other hand, have followed their own path, influenced by theories, but also by the perceptions of the policy makers in the developing countries, international organizations and bilateral donors, policy economists, ideologies and even fads and fashions.

28. The models and hypotheses of the 1950s and 1960s had implications that emphasized saving and investment, and thus rapid accumulation of capital. Industrialization was emphasized as the key to development and to catching up to the high living standards of the industrial nations. The development of the manufacturing sector, it was felt, would provide access to modern technology, with its concomitant high productivity. The spillover effects would transform other sectors. Import-substitution industrialization (ISI) policies were often pursued as the most practical approach to promote economic development. It was also believed that a less developed country would not really benefit from free international trade and investment. It was further assumed that in the less developed economies there were pervasive market failures and government action was necessary to correct these market failures, and that therefore the state should function as the major agent of change.

29. In the 1960s the initial concentration on physical capital accumulation began to give way to the concept of investment in human capital and its implication for development. It was increasingly recognized that development depended on productive human agents, who, through their acquisition of know-how and increase in skills, could raise total factor productivity.

30. By the late 1960s and early 1970s, the consequences of the deficiencies in industrial strategies and planning as well as adverse effects of government intervention had become acute in many developing countries. Particular criticisms were levied against the neglect of agriculture, the inefficiencies of state-owned enterprises, the adverse effects of import-substitution industrialization and balance of payments deficits. The effects of government failure were increasingly evident in the adverse consequences of price distortions—distortions that were prevalent not only in the product markets but also in wages, interest and exchange rates. The policy prescription now became to "get prices right" and also to "get all policies right". Markets, prices and incentives became the central concern of policy making. It was recommended that policies should move from inward-looking strategies towards liberalization of the foreign trade regime and export promotion. Specifically, the new policy recommendations called for developing countries to adopt macroeconomic stabilization programmes; to privatize state-owned enterprises and promote the private sector; and to allow the market price system to work. The "Washington Consensus" attempted to summarize these policy stances as conducive to economic development.

31. The ideas derived from the Washington Consensus had considerable influence on the economic reforms of many countries from about the mid-1980s onwards, until the end of the twentieth century. However, the degree with which they were embraced varied from region to region, as did the manner in which these countries interpreted and chose to implement them. The region that made the most determined attempt to adopt and implement these policies was Latin America, where many emerging economies were engaged in accelerated structural changes, liberalization, deregulation and privatization. Eastern Europe (including the Russian Federation) and Africa also sought to improve the policy environment through the adoption of these ideas. The approach of some of the Asian countries including China, India and the Republic of Korea was, however, more cautious. Although they adopted a more market-oriented and private sector-friendly approach stressing the importance of sound macroeconomic conditions, many of the microeconomic policies adopted in these countries differed substantially from the postulates of the Washington Consensus.

32. By the turn of the century the popular support for the reform programme was declining in many parts of the world as it was felt that the Washington Consensus, with its overwhelming emphasis on macroeconomic orthodoxy, was not delivering its promise to facilitate sustainable and equitable growth. In Latin America the growth rate remained significantly below its pre-1980 level and there was a growing realization that the market-oriented reforms had paid little attention to the mechanisms of social insurance and safety nets. Economic decline persisted in many parts of Africa despite an overall "improvement" in the policy environment. There was a dismal failure of price reform and privatization in the Russian Federation in the absence of a supportive legal and regulatory mechanism. Finally, the Asian financial crisis exposed

the danger of allowing financial liberalization without adequate regulation.

33. The realization that the market-oriented policies might be inadequate without more serious institutional transformation led to the formulation of the so-called "second generation" reforms that emphasized "good governance", reinvigoration of the state's capability, and social policies including social safety nets and targeted poverty reduction. It was felt that stronger, more effective institutions were needed to complement the macroeconomic policy changes, and that liberalization and privatization would be counterproductive without strong regulatory institutions.

34. The emphasis on strong regulatory institutions—"get the institutions right"—corrected somewhat the bias of the original Washington Consensus favouring minimalist government. It is now realized that the governance structure requires sound institutions, laws and regulations for the proper functioning of the market economy, and that there is a synergy between state and market which needs to be supported to accelerate development. It is accepted that the private sector is best suited for direct production of consumer and producer goods or for inducing innovation and change. But the government still has extensive functions in dealing with new market failures (such as imperfect information and incomplete and imperfect markets), providing public goods, satisfying merit wants such as education and health, reducing poverty, providing physical and social infrastructure, and protecting the environment.

35. In recent years the development agenda has become broader and more complex. Thus the "comprehensive development framework" (1999) unveiled by the World Bank adopts a holistic approach (reminiscent of the ideas advanced in the 1940s and 1950s) to deal with the problems of underdevelopment. Similarly, the Millennium Development Goals (2000), which emerged out of the United Nations Millennium Summit of world leaders held in September 2000 set targets for combating poverty, hunger, disease, illiteracy, environmental degradation and discrimination against women. Both, however, emphasize the two paramount goals of poverty alleviation and environmental sustainability, which have come to figure prominently in the current development agenda.

36. It is possible to draw some conclusions about development strategies from the experience of the past 50 years. Firstly, it is clear that growth strategies comprising economic policies and institutional arrangements show a great variety across countries and over time. The more successful ones tend to be context specific and are built around local capabilities, constraints and opportunities and are not unduly influenced by economic or development orthodoxy.

37. The development paradigm of the 1990s raised the hope that trade liberalization, macroeconomic stability and market-oriented policies combined with democratization would lead to the prosperity that had long eluded the developing countries. The decade ended with the sober realization that sound macroeconomics is not a goal but a precondition for growth. The latter realization however, was an important contribution of the Washington Consensus as it marked a departure from the development policies of the earlier decades which encouraged deficit financing and loose monetary policies leading to inflation, an adversarial posture towards foreign investment, barriers on imports and exports, industrialization based on high tariff and non-tariff protection, expansion of state-owned enterprises and the like.

38. Another important contribution of the development paradigm of the 1990s was the primacy it gave to the private sector in economic activities, particularly in production and distribution activities and in promoting innovation and change. This initially resulted in massive privatization programmes in many emerging economies. It also came to be accepted that the private sector, because of its innovativeness and speed of response to economic opportunities for improved productivity performance, has a key contribution to make in reducing the lead time required for translating different kinds of reforms to economy-wide productivity gains.

39. Although many of the postulates of the development strategies of the 1960s and 1970s—the so-called ISI approach—came to be modified through the economic reform programmes of the 1990s, and have rightly been abandoned in the current development agenda, there are some elements in that earlier strategy which are still relevant for some of the developing countries in specific contexts and circumstances. In fact, in spite of its somewhat unsavoury reputation, ISI worked well in a very broad range of countries until at least the mid-1970s as a strategy of development, intended to raise domestic investment, create production capability and enhance productivity. The Republic of Korea, which pursued an import substitution approach in the 1960s and switched to an outward orientation in the subsequent decade, continued an extensive set of industrial policies that took the form of direct credit, trade protection, export subsidization, and tax and other incentives. Both in China and India, although they transformed their attitudes towards markets and private enterprises from 1980 onwards, state intervention continued in various forms of support and protection for domestic capacity building. As has been mentioned earlier, it is these countries, which have shown worthwhile economic performance in recent years.

40. The lesson one can perhaps draw from this experience is that industrialization and capacity-

building of domestic enterprises should continue to be one of the key elements of the development strategy for a less developed country. This includes private sector development, the development of physical infrastructure for industry and policies to foster internationally competitive manufacturing and services sectors.

41. In this context, the state's complementary role with the market also assumes importance. In a low income environment, as in most LDCs, market imperfections inherent in the situation block investment and entrepreneurship in non-traditional activities. State intervention and proactive industrial policies have an important role in promoting ways to crowd in investment and entrepreneurship with some positive incentives.

B. Convergence and sources of growth: theoretical underpinnings and empirical evidence

42. This section discusses the issues of convergence and sources of growth, which have exercised the minds of development economists concerned with understanding the differential rates of growth between the industrialized and developing countries and also among the developing countries themselves. The conclusions arising out of this discussion are intended to assist in clarifying and refining UNIDO's corporate strategy.

43. While cross-country convergence in growth rates is accounted for by the conventional (neoclassical) theory in terms of capital accumulation, the endogenous growth theory emphasizes differences in technology across countries and over time. The neoclassical tradition incorporated the idea of declining marginal product of capital, so that sustained growth was possible only through exogenous technological change. If countries have access to the same technology, growth rates would be expected to converge across countries. However, the growth experiences of the developing countries have been diverse both in terms of growth rates and productivity. In fact, across large samples of countries, it does not appear that poor countries grow faster than, or are "converging" towards, the rich countries, or that they are "closing the gap" that exists in per capita incomes. On the contrary, an examination of the GDP per capita between LDCs on the one hand and the rest of the developing world and the advanced industrial countries on the other during the last three decades shows a clear pattern of divergence. The gap in income that separates the world's rich and poor nations is wide and glaring.

44. There can be many explanations for this situation. In practice, technological change in the developing countries has been uneven, with changing mixes of technology inflows and domestic technological efforts. Besides, even if all economies have access to the same technology, their growth rates and productivity can differ, if human capital and the incentives offered are different. The "new" growth theories therefore note that technical change is endogenous and that education and knowledge produce positive externalities.

45. The importance of spreading knowledge, information skills, technology and technical change in promoting growth and productivity is further emphasized in the discussion relating to the "sources of growth" or "growth accounting". "Growth accounting" assumes that the total output of an economy is a function of its resource endowments (labour, physical capital, human capital) and the productivity with which these endowments are deployed to produce a flow of goods and services. Contributions of increased inputs to output growth are measured and any residual not explained by input increases is considered a measure of growth in the productivity of factor inputs. This residual, called growth in total factor productivity (TFP), is a measure of technological progress, upgrading of the quality of labour, and technical change defined very broadly to include, among others, improvements in techniques, economies of scale and management practices leading to real cost reductions.

46. Empirical evidence on the determinants of economic growth in the industrialized countries clearly establishes that the contribution of TFP to real income growth has been far more important than that of the factor inputs. The modern economic growth in these countries has been predominantly dependent on sustained improvements in technology rather than on capital accumulation.

47. Similar empirical studies on the growth experience of the developing countries are somewhat limited due to data constraints. However, over the past half a century, in most developing countries and especially in the initial stages of industrialization, a greater portion of increased output appears to be explained by increases in physical and human capital, with growth in productivity accounting for a relatively smaller portion of output growth. However, more recent research suggests a much greater role for productivity growth, by recognizing that in the countries with rapid capital accumulation the profitability of capital investment owes much to domestic learning and innovation. Also, it is quite clear that, while factor accumulation may be quite important in some specific contexts, productivity growth rather than factor accumulation accounts for most of the income and growth differences across nations.

48. This is illustrated by the spectacular growth experience of the newly industrializing economies (NIEs) of East Asia (including the Republic of Korea; Taiwan Province of China; Hong Kong SAR; and Singapore), which during the decades 1960-1990 have transformed themselves from technologically backward and poor to relatively modern and affluent economies.

49. The NIEs focused on productivity-enhancing instruments in particular. In fact, commentators have suggested that their success was the outcome of several interrelated features, including openness, the ability to learn from exporting and adopted foreign technologies and the existence of a skilled and competent work force. Learning, entrepreneurship and innovation, and a move towards international best practices were at the heart of their productive utilization of labour and investment.

50. In contrast, a comparison of relevant data analysed by UNIDO in respect of 32 LDCs and 22 industrial countries shows that there is a striking gap between both groups of countries in terms of the levels of technology and related practices. This is explained by the fact that the LDCs have experienced an overall decline in TFP during the relevant period, pointing to technological practices as a major reason. Indeed, such a decline is one expression of their increasing distance from the world technological frontier, which reveals their severe difficulties in accessing, assimilating and diffusing technology.

51. All these points conclusively establish the crucial role of productivity enhancement, driven by skills, knowledge enhancement and technological upgrading, in promoting faster growth.

52. The discussion so far has referred to the "proximate" determinants of growth, comprising factor accumulation and productivity change. There are also what some analysts describe as "deep" determinants, of which three appear most important, namely *geography, institutions and integration (globalization and trade)*.

53. First of all, ***geography***. This does not concern just natural resource endowments, although they can have important direct and indirect influences on economic growth through their impact on institutions. Climate, for instance, has a heavy influence on the quality of land, crop yields and morbidity. Likewise, the distance and relative difficulty of access to the key international trade routes affects transport costs and can have a bearing on a country's ability to become integrated into world markets, regardless of its economic potential and trade policies. Also, geographically or politically isolated countries do not benefit from technological diffusion.

54. The second fundamental or "deep" determinant is ***institutions***, which includes the rule of law, property rights, the regulatory framework, appropriate economic and financial institutions, an independent judiciary, and bureaucratic capacity. The quality and effectiveness of the institutional structure cannot be taken for granted. Increasingly it is being realized that the existence and development of such institutions are essential preconditions and determinants of growth.

55. The third "deep" determinant is the degree of ***integration*** into the world economy. This assumes particular importance in the context of increased globalization, including increasing international trade in goods and services, greater international competition and increasing international flows of investment and technology.

56. It is the aspect of technology transfer and diffusion that is of particular importance because of its direct links with productivity enhancement. Two types of countries have been successful in absorbing technologies from abroad: countries with successful export-promotion policies and those that have been able to attract large flows of foreign direct investment (FDI).

57. Also, in a world where diffusion of technology and technological change is the key underlying factor accounting for productivity enhancement and where severe structural barriers sharply slow down the process, an international agency (like UNIDO) responsible for fostering the international diffusion of technical knowledge and enabling the developing countries to take advantage of it gains great potential relevance and importance.

58. Finally, all these determinants of growth have mutually reinforcing effects. At the same time it must be noted that, while theoretical models can help in understanding the underlying structure of the issues, they do not necessarily capture the complex process of economic development, and neither can they take full account of the diversity of the growth experience. An international organization like UNIDO must take due notice of this situation while formulating its corporate strategy and related activities and policy prescriptions.

C. Elements of a pragmatic development approach

59. On the basis of the discussions and conclusions described in the previous sections, it is possible to outline the contours of a pragmatic approach to development, which could guide the process of refining UNIDO's corporate strategy.

60. Macroeconomic stability is an essential precondition for growth as is "good governance". Macrostability requires fiscal discipline, and a prudent and coordinated mix of fiscal, monetary and exchange rate policies. The major elements of good governance are maintenance of law and order and the rule of law, low levels of violence and armed conflict, independence and transparency of the judiciary and enforcement of property rights. Another requirement is the quality of infrastructure, including power, water, telecommunications and transportation. All of these three elements are necessary to maintain a business climate for private sector investment, vibrant entrepreneurship, sustained productivity improvements and growth.

61. The private sector is the main engine of growth, as it is the major source of entrepreneurship and innovation. In a market-oriented economy it is the competitive private sector that is responsible for the production and distribution of goods and services, and for introducing technology, innovation and change. Therefore, promotion of the private sector is a key element of the development strategy.

62. For its proper functioning, however, the market economy relies on a wide range of non-market institutions that perform regulatory, stabilizing and legitimizing functions, with complementary roles being played by the private and public spheres of the economy that make the system sustainable.

63. Within this framework, growth can be realized through investment and gains in productivity. Business investment may be defined broadly to include all the activities that entrepreneurs undertake such as the creation and expansion of productive capacity, employing new technology and adapting and improving existing technologies, designing and producing new products, maintaining and improving quality, marketing these products and the like. The promotion of business investment for industrialization and simultaneously encouraging accumulation of knowledge, technology upgrading and technical change should be the central tenet of the development policy.

64. There are many facets to this approach. Firstly, appropriate microeconomic policies are needed to tackle both government and market failures inherent in low-income environments. These involve the removal of government-imposed barriers to entrepreneurship and interventions designed to provide inducements to promote modern, non-traditional activities in low-income economies dominated by the production of primary commodities. These include policies to foster export-processing zones, industrial parks or any form of pioneer industries. They also include policy interventions to improve information on new technologies or methods of adapting existing technologies and improve cost structures in the economy for the entrepreneurs. The articulation of microeconomic policies and interventions related to the supply of public goods occupies an important place in the policy agendas of developing countries, as indeed it does in the advanced industrial world. The crucial test for these policies is how far they are able to boost productivity growth, and thereby accelerate long-term economic growth.

65. For private sector-led productivity growth to occur, public policy interventions are required that finely mesh the incentives regime with the supply of public goods. Market incentives are critical to economic development and the incentive structure of a society is a function of its policy regime and institutional structure. To ensure long-term, sustained growth it is essential that high-quality institutions be developed. It is the admixture of rules, norms and enforcement characteristics and the interaction that these produce among the economic agents, markets and institutions that ultimately determines economic performance. They constitute the primary determinants of the extent to which individuals are willing to make the long-term investment in capital, skills and technology that are associated with productivity growth and sustainable economic success.

66. As has been explained earlier, growth in productivity is primarily driven by technological progress, upgrading and diffusion. Benefits of technology upgrading and diffusion are mostly derived by those countries which have been able to attract substantial flows of FDI and/or have participated in large export efforts, thereby responding to competitive pressures from the export market. This necessitates policies to promote FDI and foster internationally competitive manufacturing and service sectors in the developing countries. The approach should be to combine the opportunities offered by the world markets to develop competitive industry that would motivate both domestic and foreign investors to invest in the economy. This would also be in conformity with the requirements of the multilateral trading system being developed since the conclusions of the Uruguay Round of trade negotiations in 1994.

67. Promotion of small- and medium-scale enterprises (SMEs) is key to fostering business activities. This is particularly the case of the agriculture-based economies in Africa and LDCs, where most of the poor are living, and for which the development of an SME agro-industrial sector would contribute to poverty alleviation—an important international development goal. Small enterprises constitute the seedbed for entrepreneurship which is crucial to the process of increasing productivity. SMEs support the building up of systemic productive capacities and contribute to the creation of resilient economic systems in which small and large firms are interlinked. Such linkages and resulting clusters of large and small enterprises are of increasing importance for the attraction of foreign investment. Small enterprises, as amply demonstrated in information and communication technologies, are also a significant source of innovation, often producing goods in niche markets in a highly flexible and customized manner. The experiences of East Asia, notably China, Japan and Taiwan Province of China, as well as the Bangalore region in India and the successful transition economies in Hungary and Poland, have shown the great importance of urban and rural small and medium enterprises in economic development. Small- and medium-scale enterprises account for the majority of firms and a large share of employment in most developing countries. It is in these enterprises, including

micro-enterprises, that most of the rural and urban poor work. Promotion of a dynamic small enterprise sector in both rural and urban areas would strengthen income-generating opportunities for poor people, while reducing their vulnerability to economic risks.

68. Finally, it has now become clear that there is no longer a trade-off between growth and measures for ensuring environmental sustainability. All developing countries now face problems of environmental degradation brought about by the urban-industrial model of growth. The concerns regarding ozone depletion, global warming and biodiversity have also brought about the realization that if development is to be sustainable, the environment needs to be protected and environmental concerns must be systematically incorporated into the conventional paradigms of economic development. This may be done by seeking to influence the behaviour of various economic actors through both market-based and command-and-control type measures as appropriate. In addition, there has to be a shift in the process of industrialization, from end-of-pipe pollution control to the use of new and advanced technologies, which are more efficient in the use of energy and materials and produce less pollution and waste. Finally, there is a need for the adoption of fundamental changes in both production design and technology represented by the "cradle-to-cradle" approach, and the reorganization of production and its redesigning upon biological principles in order to enhance resource productivity along the lines advocated by the concept of "natural capitalism".

69. The next step is to examine how these elements of the pragmatic development approach influence the formulation of the corporate strategy and activities of UNIDO, an organization set up by the international community to assist the developing countries and the transition economies in their industrialization efforts.

III. STREAMLINING UNIDO'S CORPORATE STRATEGY AND ENHANCING THE EFFECTIVENESS OF ITS SUPPORT PROGRAMMES

A. Key strategy elements

70. A corporate strategy is the creation of a unique and valuable position for an organization, involving the definition of its priorities and a set of activities tailored to these priorities. The strategic positioning of any organization involves performing *different activities* from its competitors *or* performing similar activities in *different ways*. A fit among the activities is essential not only for competitive advantage, but also for the sustainability of that advantage. Sustainability comes from the activity system as a whole, not from its isolated parts, and is the key to operational effectiveness.

71. UNIDO's mandate is to assist developing countries and countries with economies in transition in their industrialization efforts, to enable them to enhance their capacities for promoting sustainable industrial development for economic growth and poverty alleviation. Given the dynamics of the development process discussed earlier, UNIDO's corporate strategy must focus on an increase in productivity growth, and the agency's activities should be built around this central theme for achieving optimal effectiveness. Productivity enhancement would provide the needed strategic fit across all the activities and interventions.

72. As a specialized agency of the United Nations, UNIDO has a dual role. On the one hand, it provides technical cooperation services, which enhance skills, technology and related capacities. On the other, it also performs "global forum" functions by generating and disseminating knowledge about industrial development processes and associated issues, and initiating/conducting debates and discussions on industrial development and related matters in order to influence the development agenda in this area. In both spheres of activities, UNIDO must focus on the key elements, which contribute to productivity enhancement in the development process, and eventually result in economic, social and environmental wealth.

73. In the context of a market-oriented, globalizing, international economic environment, the provision of global public goods provides justification and a rationale for the operations of multilateral organizations. In the case of UNIDO, these have to relate to the area of industrial development. More specifically, the creation, transformation and management of knowledge on industry can be considered a global public good, which is the legitimate concern of UNIDO. This would cover areas such as the transfer and upgrading of technology, learning, innovation, building of skills and capabilities, which have a direct bearing on productivity growth. The global forum function also involves benchmarking industrial performance and identifying international best practices for dissemination; organizing the exchange of sector-and-theme-specific information and views of experts and decision makers from different countries and regions; and disseminating knowledge on current and emerging trends, challenges and opportunities to inform policy-making. In doing so, UNIDO's global forum activities draw upon in-house and collaborative research as well as the rich pool of experiences generated by its technical cooperation programmes.

74. The global forum function and the technical cooperation function thus reinforce each other. The results of the global forum function help UNIDO to improve the whole range of its services, while the experiences and insights gained from the technical cooperation activities are factored into the global forum function. Consequently, both kinds of activities support

each other in the quest for relevance, effectiveness and impact.

75. More specifically, the tasks to be undertaken for this purpose include:

- Identifying the range of UNIDO interventions that rely on well defined fields of specialization and are most appropriate to fulfil the Organization's mission;
- Maximizing the impact of UNIDO's operational activities by optimizing their synergies with global forum activities and enhancing specialized competencies;
- Furthering UNIDO's research agenda by enhancing in-house capacity and drawing on research cooperation and networking;
- Generating outputs of immediate utility for the international development community;
- Achieving an effective synthesis between the routine and innovative feature of UNIDO's programmes, while at the same time incorporating the state-of-the-art knowledge and improvements in the understanding of the development process.

76. With regard to the technical cooperation or operational functions, UNIDO must design practical and useful deliverables keeping in view the realities of the global economic environment as they impinge on the developing countries and transition economies in general and the LDCs in particular. The paramount consideration should always be to help enhance productivity growth so as to ensure long-term economic success. A few stylized facts emerging from the relevant and current trends and their respective implications for technical cooperation can be highlighted in this connection.

B. Stylized facts and UNIDO's response

Fact 1: Productivity enhancing business investment in plant and equipment technology and skills enables sustainable economic growth.

77. *General implications*: Developing countries, including LDCs, can achieve long-term economic growth only if business investments in equipment and infrastructure are characterized by increased productivity growth. The latter is a function of technological progress, learning, technological change and improvements in the quality of labour.

78. *Implications for UNIDO's technical cooperation*: Developing countries need to create a business climate conducive to promoting both domestic and foreign investment. Investment in equipment and infrastructure involving the creation and expansion of productive capacity should be combined with the adoption and improvement of modern technologies, improvement in skills, adherence to the established quality standards and participation in the domestic and world markets in harmony with the established trading rules in order to develop competitive industry. In other words, in the process of industrial capacity creation, capital accumulation and technological change should be closely intertwined. That will ensure productivity enhancement and long-term economic growth. UNIDO, in these circumstances, should assist the developing countries and the transition economies:

- To develop a positive investment climate by advising them on international best practices and experiences in industrial development, investment promotion and effective industrial policies and strategies;
- To create and develop capacities for identifying technology gaps and for the acquisition, adaptation and improvement of technologies by providing information on successful experiences and worldwide best practices in the area;
- To develop national quality and standards systems in support of industrial competitiveness, market access and the protection of consumer health, safety and environment.

Fact 2: There are widening productivity differentials between and within countries.

79. *General implications*: The quest for development and the fight against poverty will not succeed unless inter- (and intra-) country productivity differentials are narrowed through the mobilization of skills, knowledge, technology and information in the developing countries, resulting in equitable and sustainable development.

80. *Implications for UNIDO's technical cooperation*: The developing countries need to build the capacity to implement effective interventions to foster productivity growth and to monitor it at different levels of aggregation. UNIDO should assist these countries:

- To develop national monitoring systems for industrial productivity at different levels of aggregation (firm, sectoral, regional and national) at the country level, in order to measure, monitor and set targets for short-term and long-term trends in productivity;
- To create capacities for implementing policies and programmes geared to the absorption, adaptation and diffusion of quality and productivity-enhancing technologies that are also environmentally sound

Fact 3: Increasing marginalization of LDCs is a consequence of their inability to master technologies and take advantage of market-opening measures in the advanced industrial countries.

81. *General implications*: (a) The increasing relative concentration of poverty in the developing countries in general, and the LDCs in particular, is associated with their inability to narrow productivity differentials with the more advanced economies and thus to generate sustained and equitable development; (b) Marginalization from world trade and investment flows stems from the LDCs' inability to meet the minimum conditions for having conducive incentive systems and an appropriate supply of tradable goods. This problem is aggravated further by lingering iniquities in the world trade regime, which are being addressed only slowly.

82. *Implications for UNIDO's technical cooperation*: Developing countries, particularly LDCs, need to foster domestic entrepreneurship in order to increase their trade-related supply response capacity. UNIDO can support these countries in this area through:

- Assistance in the establishment and strengthening of quality and standard setting institutions;
- Advice on best practices relating to improvement in quality, both in terms of processes and products;
- Assistance in investment and technology promotion aimed at speeding up the transfer of quality and productivity enhancing technologies, which are also environmentally sound;
- Advice for accessing external markets and on various export-promotion measures.

Fact 4: The small and medium enterprise sector in developing countries is often seen as a means of generating low-skilled jobs and fighting poverty. This implies a neglect of the SME sector's important contribution to fostering growth, specialization, technological innovation and exports.

83. *General implications*: Important opportunities for dynamic industrial growth are foregone when the potential contribution of SMEs to innovation and exports is not recognized and promoted.

84. *Implications for UNIDO's technical cooperation*: The SMEs cannot be treated like a homogenous sector. Support programmes must be targeted towards different types of enterprises (medium, small and micro) and respond to their varying needs and capacities. Policy and institutional support actions need to be designed with specific objectives in mind. These can range from directly poverty-reducing programmes to support programmes geared towards technological catching up and enhanced internationalization. UNIDO's technical cooperation in this area thus consists of:

- Supporting the integration of more advanced small to medium enterprises into global value chains and procurement networks;
- Promoting horizontal, vertical and regional SME networks and improving the collective efficiency of existing SME clusters;
- Strengthening of specialized public and private service providers seeking to address market failures working against SMEs (in areas such as business information, technology management and access to finance);
- Enhancing the entrepreneurial and managerial skills of micro-enterprises, with emphasis on disadvantaged rural areas, and on harnessing the potential of women entrepreneurs, with a view to reducing regional development disparities.

Fact 5: Weak cooperation links between economic agents, markets and institutions in developing countries prevent them from drawing effectively on international trade and investment flows.

85. *General implications*: Segmented domestic products, skill and technology markets, dysfunctional institutions, and the lack of the necessary infrastructure and incentives that domestic firms need to compete, learn and innovate, prevent developing countries from participating meaningfully in world trade and investment flows.

86. *Implications for UNIDO's technical cooperation*: The establishment of market incentives for the rapid diffusion of knowledge, information, skills and technology across economic agents and institutions is key to the development of private sector-led, productivity-driven, industrial development. Through its support to the design and implementation of effective industrial policies, strategies and other upstream cooperation activities, UNIDO complements its technical cooperation programmes with a view to fostering technology diffusion and competitive upgrading for equitable and sustainable industrial development.

Fact 6: Agro-based industries have a predominant role in the development prospects of developing countries, especially LDCs.

87. *General implications*: The overwhelming majority of developing countries and almost all LDCs are

endowed with considerable agricultural resources, a significant (potential) labour force and/or at least some indigenous (natural/mineral) resources offering a viable basis for establishing or strengthening agro-based industries, providing employment for the local population and generating value-added for the local community, in particular in rural areas which are facing pervasive problems of food insecurity, poverty, malnutrition and limited competitiveness.

88. *Implications for UNIDO's technical cooperation*: Production of commodities based on agricultural outputs and local (natural) resources are in permanent demand throughout all world markets—especially if they imply a natural origin. Agro-based industries convert agricultural products into much needed consumer goods such as foodstuff, textile apparel, leather products, wooden articles and composite materials—in fact into commodities of prime needs (food, clothing, shelter and tools), as well as other articles such as beverages, canned and frozen food, fashion-oriented garments and leather goods, furniture etc. At the same time, international/global competitiveness admits only safe, certified, reliable products with consistent supply, which assumes well organized, knowledge-based, environmentally sound product development, production/process technology and quality assurance systems, whereas most of these industrial sectors are fairly labour-intensive. Based on their intrinsic natural resources, developing countries, especially LDCs, have all the material and environmental conditions to participate in the global value chain, but they lack appropriate knowledge, skills, machinery and contacts due to missing investments, market intelligence, production skills and research and development institutions.

89. UNIDO offers highly focused, specific and fine-tuned technical assistance services in all these areas of industrial activities and functions, possesses a wide international network and accumulated (institutional) experience enabling it to disseminate best manufacturing practices, to transfer the best fitting (most appropriate, yet productive) technology—both hardware and software—to establish and/or strengthen support (training, development, testing, service) institutions, to set benchmarking criteria and to implement related systems. Development programmes for strengthening productive capacities, in particular through skills enhancement and technology-based interventions are targeting small and medium enterprises and specific agro-based sectors (in particular agro-machinery, food processing, leather and leather products, textiles and wood) with a view to enhancing the competitiveness of their products in domestic, regional and world markets.

Fact 7: Industry makes suboptimal use of natural resources and can be a significant source of pollution and waste.

90. *General implications*: The costs of unsustainable exploitation of natural resources on the one hand, and of excessive pressure on the absorptive capacity of the natural environment on the other, are passed on to future generations without taking recourse to preventive and remedial steps, and thereby curtailing future industrial development. The typical urban-industrial model of development imposes heavy environmental and economic costs and needs to be transformed into an opportunity for sustainable development by integrating the environment as a strategic element in the processes of production, new investment and technical change.

91. *Implications for UNIDO's technical cooperation*: Through its activities in the areas of environmentally sound technology and clean energy, UNIDO speeds up the international and domestic diffusion of environmentally sound technologies that are quality and productivity enhancing, with particular attention to specific industrial sectors and the needs of the poor. Specifically, UNIDO's activities in this field include:

- Technical assistance to increase national capacities in environmental planning and policy formulation through a strengthening of the appropriate infrastructure and human resources;
- Provision of information and demonstration facilities on the use of clean production and processing technologies and environmental management techniques through an international network of National Cleaner Production Centres;
- Support with the transfer of environmentally friendly production and processing technologies and the application of pollution control and waste-management systems;
- Assistance to enable developing countries and transition economies to meet their commitments under international environmental protocols and conventions.

Fact 8: There is considerable scope to improve the efficiency with which industry uses energy.

92. *General implications*: Improving energy efficiency is broadly consistent with the major objectives of most national energy policies and with the intergovernmental climate negotiation process. The Climate Convention and Kyoto Protocol together create both challenges and opportunities for energy efficiency

measures and technologies. On the one hand, an increase in the pace of energy efficiency improvement is needed to control greenhouse gas emissions and protect the climate. On the other hand, the Kyoto Protocol, through the Clean Development Mechanism (CDM) and Joint Implementation (JI) will establish new markets for energy efficient technologies and services in developing and transition economy countries.

93. *Implications for UNIDO's technical cooperation*: The new priority for UNIDO's protocol-related global forum and technical assistance activities will be to facilitate the involvement of business and industry in CDM and JI. Interventions will initially focus on controlling greenhouse gas emissions through industrial energy efficiency. This is considered to be an essential component of emissions mitigation. It is one of UNIDO's core activities, central to the Organization's mandate and an issue on which UNIDO can play a lead role in defining the development agenda. Measures to improve industrial energy efficiency also yield improvements in productivity and reliability.

C. Implications for UNIDO activities

94. From the above, the following overriding implications for UNIDO can be derived:

- UNIDO needs to devise and implement specific interventions through its technical cooperation activities aimed at speeding up the transfer and mastery of technical knowledge and facilitating market access and development by fostering the building of capacities required to that effect. Productivity gains, in their various manifestations, are the ultimate gauge of the impact of these interventions;
- The transfer of technical knowledge is key to UNIDO's mandate. But so is making sure that such knowledge is effectively put to productive use. For this reason, institutional capability building, skill formation and entrepreneurship development are also key to the success and impact of UNIDO's technical cooperation programmes;
- From this perspective, a new approach to UNIDO's technical cooperation activities is hereby proposed, which should result in a sharper focus and enhanced effectiveness in the deployment of the experience and expertise of the professionals assigned throughout UNIDO's eight service modules. This approach, which has been validated in the Venice I and II global forum exercises, seeks to facilitate a better conceptual and operational design of the Organization's activities, as well as enhanced impact.

95. UNIDO interventions can analytically be clustered around two key areas of comparative advantage:

(i) Technology diffusion;

(ii) Capacity-building for market access and development.

96. The area of *technology diffusion* comprises all the activities that deal with technological learning, absorption and mastery as the key outcome sought. This includes, above all, programmes relating to technology and investment promotion, technology foresight, technology management, biotechnology, entrepreneurship development, upgrading and rehabilitation of manufacturing and technical services, South-South cooperation, and the transfer, absorption and mastery of environmentally sound technologies. The last element includes the programmes relating to the implementation of the various environmentally related international protocols and the cleaner production centres and energy programmes.

97. The area of *capacity-building for market access and development* comprises all activities aimed at promoting the readiness of SMEs to face external competition, both internationally and domestically, including those performed in the areas of quality, standards and metrology, sanitary and phytosanitary measures, labelling, value chain integration as well as all those others that bear directly on Member States' export performance, such as small business export consortia and export-oriented clusters and networking and support to enable SMEs to respond to changing market conditions in increasingly opened economies. Clearly, there are important synergies to be reaped between the activities and respective outcomes in this area and those of the area of technology diffusion.

98. In the two areas, focus on the LDCs and the poor will continue to be stressed and sharpened, seeking tangible contributions to the fight for poverty reduction and for social progress, including emphasis in the fields of rural energy, women entrepreneurship and micro-enterprises. Environmental sustainability of industrial development will also be an essential ingredient through the emphasis on clean technologies and cleaner production practices.

99. Thus, in reinforcing the multiple links between entrepreneurship, technology, productivity enhancement and growth through sustainable industrial development, UNIDO would be effectively responding to the challenges of reducing extreme poverty and ensuring environmental sustainability envisaged in the Millennium Development Goals.

IV. CONCLUSIONS

100. The development experience of the past 50 years has helped us in identifying the contours of a pragmatic approach to development. This approach transcends economic or political orthodoxy.

101. In the past we witnessed a sharp confrontation between the ideals of the planned economy and those of the market economy. This time the dilemma is quite different. The challenge now lies not in the search for a completely new set of *alternative* policies, but in ensuring that current broad policy prescriptions effectively address the key development bottlenecks and thus actually deliver what is expected from them, that is, a narrowing of international and national disparities in economic and social development.

102. Let us illustrate the above with a reference to the policy implications of free trade. Recent experience offers no examples of dynamic, long-term growth in closed economies. But many of those countries that did open their economies also failed to attain such dynamic, long-term growth. It would certainly make no sense to advise these countries to return to the closed economies of the past. But it is quite clear that telling them just to open up their economies is not nearly enough. This approach needs to be considerably enriched with a more detailed treatment of what it entails to open an economy in a world driven by innovation and technical change. For instance, it calls for paying due attention to the micro-fundamentals of competitive development, the supply of public goods, the incentive system and institutional development.

103. This raises important policy challenges, such as those relating to the development of the domestic scientific and technological skills and capabilities needed to meet the increasingly stringent conformity requirements of advanced country markets or to the ever higher quality and technology standards that need to be met in order to become a viable manufacturing exporter, all within a context of ensuring equitable wealth distribution and protection of social and natural assets. Neglecting these and related policy issues normally leads to dead ends in the search for integrating developing countries into world trade and investment flows.

104. It is key for an agency like UNIDO to attain an effective integration between the conceptualization of the current policy challenges facing the developing countries and its approaches to technical cooperation delivery on the ground.

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FINANCIAL SITUATION OF UNIDO

Request from Belarus for restoration of voting rights based on payment plan

Note by the Director-General

Draws the attention of the Conference to a request from Belarus for restoration of voting rights based on a payment plan agreement and provides information on the status of payments.

Introduction

1. A letter dated 30 October 2003 from the Permanent Representative of Belarus requesting a decision by the General Conference on the restoration of voting rights is shown in the annex to the present document. The letter was also circulated to permanent missions with an information note on 3 November 2003.

I. PAYMENT PLAN AND STATUS OF PAYMENTS

2. Since 1997, payments amounting to €2,577,837 have been made by Belarus. On 1 June 2003, the outstanding assessed contributions of Belarus amounted to €452,373, for which Belarus signed a payment plan agreement on 31 October 2003 which was endorsed by UNIDO on the same day for a three-year period. The agreement is in accordance with the terms for payment plans outlined in the report of the open-ended discussion group on timely payment of assessed contributions (IDB.19/12 and Corr.1), adopted by the Industrial Development Board in decision IDB.19/Dec.5. As stipulated in the agreement, the first instalment amounts to €150,791. Belarus paid €84,388 on 10 June and €92,797 on 19 August 2003, for a total amount of € 177,185, making the plan operational.

II. VOTING RIGHTS

3. Article 5.2 of the UNIDO Constitution stipulates that any organ may permit a Member in arrears to vote in that organ if it is satisfied that the failure to pay is due to conditions beyond the control of the Member. Voting rights are governed by the respective rules of procedure of the governing bodies (rule 91 of the General Conference, rule 50 of the Industrial Development Board and rule 42 of the Programme and Budget Committee). In its report to the Board, the open-ended discussion group on timely payment of assessed contributions states: "When considering applications for the restoration of voting rights, the competent body should regularly take into account the state of payments made under an agreed payment plan" (IDB.19/12 and Corr.1, para.14).

III. ACTION REQUIRED OF THE CONFERENCE

4. The Conference may wish to consider adopting the following draft decision:

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"The General Conference:

"(a) Recalls the report of the open-ended discussion group on timely payment of assessed contributions (IDB.19/12 and Corr.1), in particular paragraphs 13 and 14;

"(b) Also recalls Board decision IDB.19/Dec.5 and General Conference decision GC.9/Dec.12;

"(c) Welcomes the commitment of Belarus to settle its arrears, as reported in document GC.10/15;

"(d) Gives satisfaction to the request by Belarus for the restoration of its voting rights in accordance with Article 5.2 of the UNIDO Constitution;

"(e) Takes note of the signature of a payment plan agreement and encourages Belarus to pay regularly its instalments in line with the conditions therein."

Annex

LETTER FROM THE PERMANENT REPRESENTATIVE OF BELARUS

**PERMANENT MISSION
OF THE REPUBLIC OF BELARUS
TO THE INTERNATIONAL
ORGANIZATIONS IN VIENNA**

Hüttelbergstrasse 6, 1140 Wien, **Tel. 419 96 30, Fax 419 96 30 30**

Vienna, 30 October 2003

Excellency,

I have the honor to inform you that the Government of the Republic of Belarus would like to request to restore the voting rights of Belarus in the United Nations Industrial Development Organization (UNIDO), as substantial efforts have been made to reduce the arrears as well as to settle the outstanding amounts to the UNIDO budget under a payment plan.

The arrears accumulated by Belarus are the result of the outdated system of apportionment of the expenditures in the organizations of the UN system, which over many years was unable to adequately take into account the Member States' capacity to pay, as well as timely reflect the changes in their economic and financial potential to do so. In addition, Belarus was faced with severe economic difficulties associated with its transition to the market economy and the need to allocate substantial resources for mitigating the Chernobyl-related problems.

Being committed to the objectives of UNIDO's activities and wishing to strengthen and continue fruitful co-operation with the Organization, the Government of the Republic of Belarus is ready to settle its outstanding contributions, which have emerged due to conditions beyond its control, and signed a payment plan agreement with UNIDO, amounting to Euro 452,373 over a period of three years. The first instalment of Euro 150,791 was paid prior to September 2003, as stipulated in the agreement.

Given the aforementioned, I would like to ask the General Conference of UNIDO to take a positive decision on restoring the voting right of Belarus, commencing with the 10th session of the General Conference, based on the provisions of Article 5 of the UNIDO Constitution.

I should be grateful if this letter could be made available to the Member States of the Organization.

Please, accept, Excellency, the assurances of my highest consideration.

[Signed]

Viktar GAISENAK,
Ambassador/Permanent Representative

H.E. Dr. Carlos Alfredo Magariños
Director General
United Nations Industrial Development Organization
UNIDO

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SCALE OF ASSESSMENTS OF MEMBER STATES

Scale of assessments for the fiscal period 2004-2005

Note by the Secretariat

Subsequent to the issuance of document IDB.27/7/Add.1-PBC.19/7/Add.1, the Secretariat was informed of the accession of Timor-Leste to the Constitution of UNIDO effective 31 July 2003, thereby increasing the number of Member States to 171. Accordingly, the proposed scale of assessments has been revised as shown in the annex to the present document, based on the coefficient of 1.421592365 (table 1).

Table 1
Calculation of coefficient
(Percentage)

	United Nations rate of assessment 2003	UNIDO rate of assessment 2004-2005
Total (171 Member States)	74.40100	100.000
UNIDO Member State with highest assessment	-19.51575	-22.000
UNIDO Member States paying the minimum assessment (0.001 per cent x 38 States)	-0.03800	-0.038
Least developed countries	-0.02000	-0.020
Total for calculation of coefficient	54.82725	77.942
Coefficient for 2004-2005: 77.942/54.82725		1.421592365

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Annex
SCALE OF ASSESSMENTS FOR 2004 and 2005
(Percentage)

Member State	UNITED NATIONS Assessment rates 2003 [a] (1)	UNIDO Assessment rates 2004 and 2005 [b] (2)	UNIDO Rates for 2003 (3)
Afghanistan	0.00100	0.00100	0.01000
Albania	0.00300	0.00426	0.00400
Algeria	0.07000	0.09951	0.09900
Angola	0.00200	0.00284	0.00300
Argentina	0.96900	1.37752	1.62800
Armenia	0.00200	0.00284	0.00300
Austria	0.94700	1.34625	1.34200
Azerbaijan	0.00400	0.00569	0.00600
Bahamas	0.01200	0.01706	0.01700
Bahrain	0.01800	0.02559	0.02600
Bangladesh	0.01000	0.01000	0.01000
Barbados	0.00900	0.01279	0.01300
Belarus	0.01900	0.02701	0.02700
Belgium	1.12900	1.60498	1.60000
Belize	0.00100	0.00100	0.00100
Benin	0.00200	0.00284	0.00300
Bhutan	0.00100	0.00100	0.00100
Bolivia	0.00800	0.01137	0.01100
Bosnia and Herzegovina	0.00400	0.00569	0.00600
Botswana	0.01000	0.01422	0.01400
Brazil	2.39000	3.39761	3.38600
Bulgaria	0.01300	0.01848	0.01800
Burkina Faso	0.00200	0.00284	0.00300
Burundi	0.00100	0.00100	0.00100
Cambodia	0.00200	0.00284	0.00300
Cameroon	0.00900	0.01279	0.01300
Cape Verde	0.00100	0.00100	0.00100
Central African Republic	0.00100	0.00100	0.00100
Chad	0.00100	0.00100	0.00100
Chile	0.21200	0.30138	0.30000
China	1.53200	2.17788	2.17000
Colombia	0.20100	0.28574	0.28500
Comoros	0.00100	0.00100	0.00100
Congo	0.00100	0.00100	0.00100
Costa Rica	0.02000	0.02843	0.02800
Côte d'Ivoire	0.00900	0.01279	0.01300
Croatia	0.03900	0.05544	0.05500
Cuba	0.03000	0.04265	0.04300
Cyprus	0.03800	0.05402	0.05400
Czech Republic	0.20300	0.28858	0.28800
Democratic People's Republic of Korea	0.00900	0.01279	0.01300
Democratic Republic of the Congo	0.00400	0.00569	0.00600
Denmark	0.74900	1.06477	1.06100
Djibouti	0.00100	0.00100	0.00100
Dominica	0.00100	0.00100	0.00100
Dominican Republic	0.02300	0.03270	0.03300

Member State	UNITED NATIONS Assessment rates 2003 [a] (1)	UNIDO Assessment rates 2004 and 2005 [b] (2)	UNIDO Rates for 2003 (3)
Ecuador	0.02500	0.03554	0.03500
Egypt	0.08100	0.11515	0.11500
El Salvador	0.01800	0.02559	0.02600
Equatorial Guinea	0.00100	0.00100	0.00100
Eritrea	0.00100	0.00100	0.00100
Ethiopia	0.00400	0.00569	0.00600
Fiji	0.00400	0.00569	0.00600
Finland	0.52200	0.74207	0.74000
France	6.46600	9.19202	9.16100
Gabon	0.01400	0.01990	0.02000
Gambia	0.00100	0.00100	0.00100
Georgia	0.00500	0.00711	0.00700
Germany	9.76900	13.88754	13.84100
Ghana	0.00500	0.00711	0.00700
Greece	0.53900	0.76624	0.76400
Grenada	0.00100	0.00100	0.00100
Guatemala	0.02700	0.03838	0.03800
Guinea	0.00300	0.00426	0.00400
Guinea-Bissau	0.00100	0.00100	0.00100
Guyana	0.00100	0.00100	0.00100
Haiti	0.00200	0.00284	0.00300
Honduras	0.00500	0.00711	0.00700
Hungary	0.12000	0.17059	0.17000
India	0.34100	0.48476	0.48300
Indonesia	0.20000	0.28432	0.28300
Iran (Islamic Republic of)	0.27200	0.38667	0.38500
Iraq	0.13600	0.19334	0.19300
Ireland	0.29400	0.41795	0.41700
Israel	0.41500	0.58996	0.58800
Italy	5.06475	7.20001	7.17451
Jamaica	0.00400	0.00569	0.00600
Japan	19.51575	22.00000	22.00000
Jordan	0.00800	0.01137	0.01100
Kazakhstan	0.02800	0.03980	0.04000
Kenya	0.00800	0.01137	0.01100
Kuwait	0.14700	0.20897	0.20800
Kyrgyzstan	0.00100	0.00100	0.00100
Lao People's Democratic Republic	0.00100	0.00100	0.00100
Lebanon	0.01260	0.01706	0.01700
Lesotho	0.00100	0.00100	0.00100
Liberia	0.00100	0.00100	0.00100
Libyan Arab Jamahiriya	0.06700	0.09525	0.09500
Lithuania	0.01700	0.02417	0.02400
Luxembourg	0.08000	0.11373	0.11300
Madagascar	0.00300	0.00426	0.00400
Malawi	0.00200	0.00284	0.00300
Malaysia	0.23500	0.33407	0.33300
Maldives	0.00100	0.00100	0.00100
Mali	0.00200	0.00284	0.00300
Malta	0.01500	0.02132	0.02100

Member State	UNITED NATIONS Assessment rates 2003 [a] (1)	UNIDO Assessment rates 2004 and 2005 [b] (2)	UNIDO Rates for 2003 (3)
Mauritania	0.00100	0.00100	0.00100
Mauritius	0.01100	0.01564	0.01600
Mexico	1.08600	1.54385	1.53900
Monaco	0.00400	0.00569	
Mongolia	0.00100	0.00100	0.00100
Morocco	0.04400	0.06255	0.06200
Mozambique	0.00100	0.00100	0.00100
Myanmar	0.01000	0.01000	0.01000
Namibia	0.00700	0.00995	0.01000
Nepal	0.00400	0.00569	0.00600
Netherlands	1.73800	2.47073	2.46200
New Zealand	0.24100	0.34260	0.34100
Nicaragua	0.00100	0.00100	0.00100
Niger	0.00100	0.00100	0.00100
Nigeria	0.06800	0.09667	0.09600
Norway	0.64600	0.91835	0.91500
Oman	0.06100	0.08672	0.08600
Pakistan	0.06100	0.08672	0.08600
Panama	0.01800	0.02559	0.02600
Papua New Guinea	0.00600	0.00853	0.00900
Paraguay	0.01600	0.02275	0.02300
Peru	0.11800	0.16775	0.16700
Philippines	0.10000	0.14216	0.14200
Poland	0.37800	0.53736	0.53600
Portugal	0.46200	0.65678	0.65500
Qatar	0.03400	0.04833	0.04800
Republic of Korea	1.85100	2.63137	2.62300
Republic of Moldova	0.00200	0.00284	0.00300
Romania	0.05800	0.08245	0.08200
Russian Federation	1.20000	1.70591	1.70000
Rwanda	0.00100	0.00100	0.00100
Saint Kitts and Nevis	0.00100	0.00100	0.00100
Saint Lucia	0.00200	0.00284	0.00300
Saint Vincent and the Grenadines	0.00100	0.00100	0.00100
Sao Tome and Principe	0.00100	0.00100	0.00100
Saudi Arabia	0.55400	0.78756	0.78500
Senegal	0.00500	0.00711	0.00700
Serbia and Montenegro [c]	0.02000	0.02843	0.02800
Seychelles	0.00200	0.00284	0.00300
Sierra Leone	0.00100	0.00100	0.00100
Slovakia	0.04300	0.06113	0.06100
Slovenia	0.08100	0.11515	0.11500
Somalia	0.00100	0.00100	0.00100
South Africa	0.40800	0.58001	0.57807
Spain	2.51875	3.58064	3.56797
Sri Lanka	0.01600	0.02275	0.02300
Sudan	0.00600	0.00853	0.00900
Suriname	0.00200	0.00284	0.00300
Swaziland	0.00200	0.00284	0.00300
Sweden	1.02675	1.45962	1.45445

Member State	UNITED NATIONS Assessment rates 2003 [a] (1)	UNIDO Assessment rates 2004 and 2005 [b] (2)	UNIDO Rates for 2003 (3)
Switzerland	1.27400	1.81111	1.80500
Syrian Arab Republic	0.08000	0.11373	0.11300
Tajikistan	0.00100	0.00100	0.00100
Thailand	0.29400	0.41795	0.41700
The former Yugoslav Republic of Macedonia	0.00600	0.00853	0.00900
Timor-Leste	0.00100	0.00100	
Togo	0.00100	0.00100	0.00100
Tonga	0.00100	0.00100	0.00100
Trinidad and Tobago	0.01600	0.02275	0.02300
Tunisia	0.03000	0.04265	0.04300
Turkey	0.44000	0.62550	0.62300
Turkmenistan	0.00300	0.00426	0.00400
Uganda	0.00500	0.00711	0.00700
Ukraine	0.05300	0.07534	0.07500
United Arab Emirates	0.20200	0.28716	0.28600
United Kingdom of Great Britain and Northern Ireland	5.53600	7.86994	7.84300
United Republic of Tanzania	0.00400	0.00569	0.00600
Uruguay	0.08000	0.11373	0.11300
Uzbekistan	0.01100	0.01564	0.01600
Vanuatu	0.00100	0.00100	0.00100
Venezuela	0.20800	0.29569	0.29500
Viet Nam	0.01600	0.02275	0.02300
Yemen	0.00600	0.00853	0.00900
Zambia	0.00200	0.00284	0.00300
Zimbabwe	0.00800	0.01137	0.01100
Total (171 Member States)	**74.40100**	**100.00000**	**100.00000**

[a] Based on General Assembly resolutions 55/5B-F and 57/4 B.

[b] Scales in accordance with General Assembly resolutions 55/5 B-F and 57/4 B, column (1) multiplied by coefficient 1.421592365 for 2004 and 2005 column (2). Coefficient is not applied to: (i) Member States with assessment rates of 0.001 per cent; (ii) LDCs whose rate may exceed 0.01 per cent; and (iii) Member State with maximum assessment rate of 22 per cent.

[c] The name of the State of the Federal Republic of Yugoslavia was changed to "Serbia and Montenegro" on 4 February 2003.